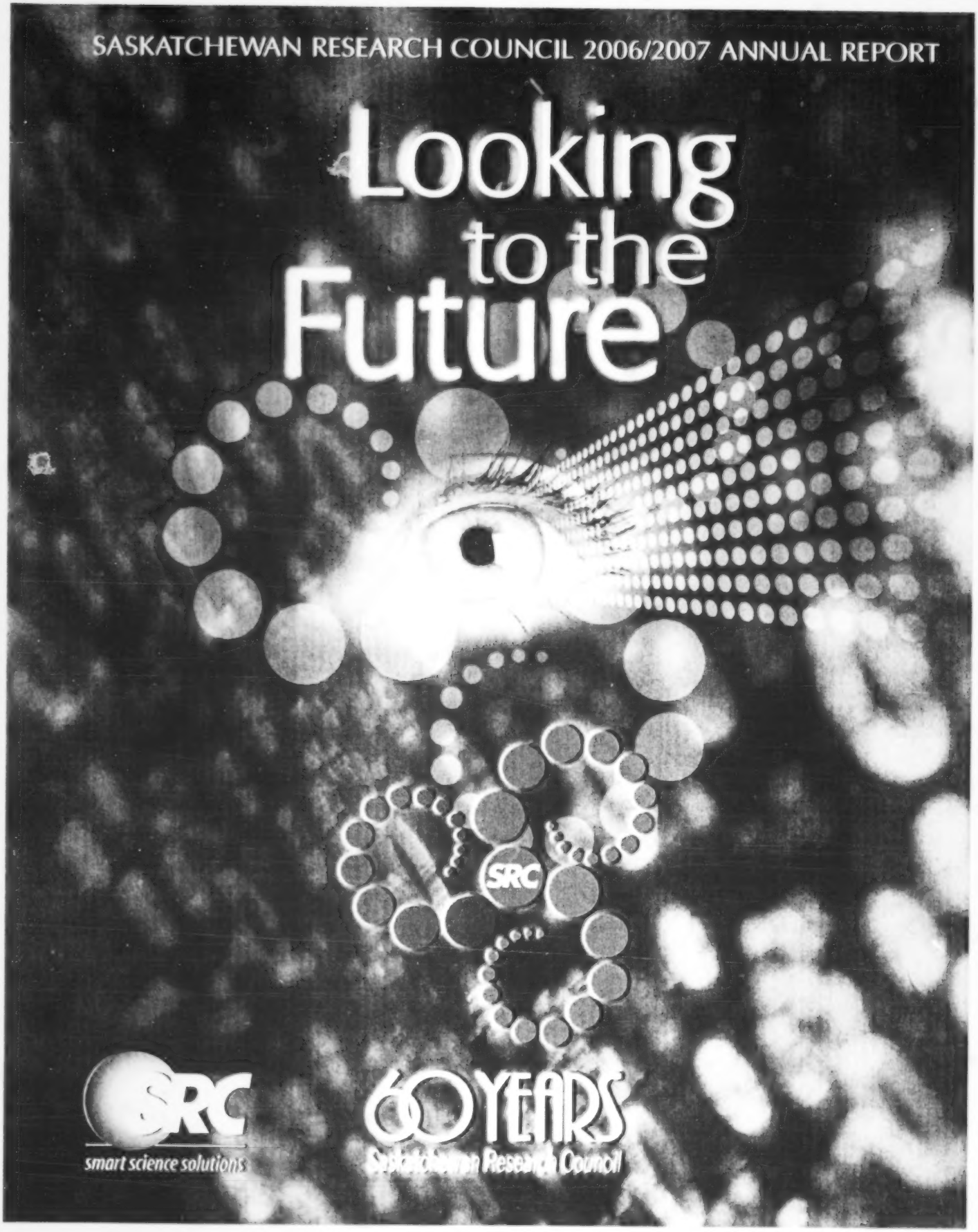
SASKATCHEWAN RESEARCH COUNCIL 2006/2007 ANNUAL REPORT

Looking to the Future



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Saskatchewan Research Council Core Values ..... *Inside Back Cover*

SRC's Mission

SRC's mission is to help the people of Saskatchewan strengthen the economy with quality jobs and a secure environment. We do it through research, development, and the transfer of innovative scientific and technological solutions, applications and services.

SRC's Vision

SRC will be an internationally recognized leader in the development and implementation of relevant science and technology. We are committed to use this strength to enable our customers to thrive in the world economy, and to benefit Saskatchewan.

SRC's Purpose

SRC creates wealth through the responsible application of science and technology to assist Saskatchewan industry to be globally competitive.

We create wealth through

i) increasing production (of goods and services)
ii) adding value (to goods and services)
iii) improving productivity
iv) creating and commercializing new products and services

The Research Council Act

Section 21 (2) directs that:
Every report shall be laid before the Legislative Assembly in accordance with *The Tabling of Documents Act, 1991*.

At SRC we value Integrity, Teamwork, Performance Excellence, and Learning

Integrity

- We treat people with respect, fairness, honesty, patience, understanding and trust.
- We are an equal opportunity employer and respect diversity.
- We are a responsible corporate citizen committed to the health and safety of people and the environment.
- We practice high ethical and professional standards.

Teamwork

- We are committed to achieving common goals through teamwork.
- We collaborate, listen and share information within SRC and with our partners.
- We consistently present a total corporate image.
- We participate actively within our networks to the benefit of clients, colleagues and the community.

Performance Excellence

- We are a financially responsible organization.
- We lead by example. We are accountable for our actions, successes and failures.
- We establish and communicate clear expectations to staff, clients and partners.
- We recognize the accomplishments of our colleagues and of the organization as a whole.
- We actively seek new clients, and strive to retain existing clients.
- We demonstrate our commitment to clients by keeping lines of communication open, providing quality products and services and delivering on time and within budget.

Learning

- We facilitate and acknowledge personal and professional growth.
- We strive to achieve excellence through innovation and continuous improvement.
- We develop or acquire appropriate knowledge as needed to achieve the best solutions for our clients and partners.
- We learn from our successes and our failures.

Letter of Transmittal

June, 2007

Letter of Transmittal

To the Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it please your Honour:

The undersigned presents herewith, for your consideration, the report of the Saskatchewan Research Council for the year ended March 31, 2007.

Respectfully submitted,

Maynard Sonntag

Maynard Sonntag
Minister Responsible for SRC

Message from the Acting Chair

Doing anything for 60 years is a major achievement. When that activity revolves around changing technology, and when the organization is more innovative and successful in its 60th year than at any time in its history, it truly is cause for celebration.

SRC has rebuilt itself several times, as the organization has adapted to changing economic, social and business environments. From modest beginnings in 1947, when SRC was without staff or facilities, the organization has become Saskatchewan's most diverse provider of applied research, development, and technology demonstration in the province.

During the company's early years, SRC primarily offered grants and scholarships to university researchers. It was during SRC's tenth year that one of the first milestones occurred, when its legislation was amended to empower SRC to employ full-time staff, build a laboratory, and extend its activities beyond fundamental research. This change was one of the most significant in SRC's history. It laid the foundation on which SRC is built today.

As a result of this change, the organization hired its first four employees and secured one of its first projects with the National Research Council to provide technical information to small-and medium-sized Saskatchewan businesses. By 1958, SRC had opened its first laboratory.

As the provincial economy grew, so did demand for SRC's services. This led to an expanded mandate, including independent research in natural and management sciences. Research focused on agriculture, water resources, fuels, transportation, metallic and industrial minerals, industrial methods improvement and other natural resources.

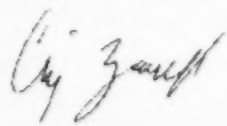
By the 1970's, SRC was moving to a more client-centred approach. Rather than concentrating on academic disciplines, SRC was restructured into units focused on industrial sectors. SRC grew progressively less dependent on provincial grants as a source of revenue and earned more money from contracts. By 1973, about 50% of SRC's revenues were secured through contract services.

During the 1980's and 1990's SRC continued its evolution through an expanded scope and a market-driven approach, with increasing emphasis on technology transfer, industrial productivity and competitiveness.

Most recently, under the leadership of SRC's current President and CEO, Dr. Laurier Schramm, SRC has experienced unprecedented growth on many fronts. Revenues and employee numbers have nearly doubled in just five years. SRC's reputation as a science-based, market-driven technology solutions provider that can deliver real-world results has dramatically risen. At the same time, SRC's economic and quality of life impacts on the province have steadily increased.

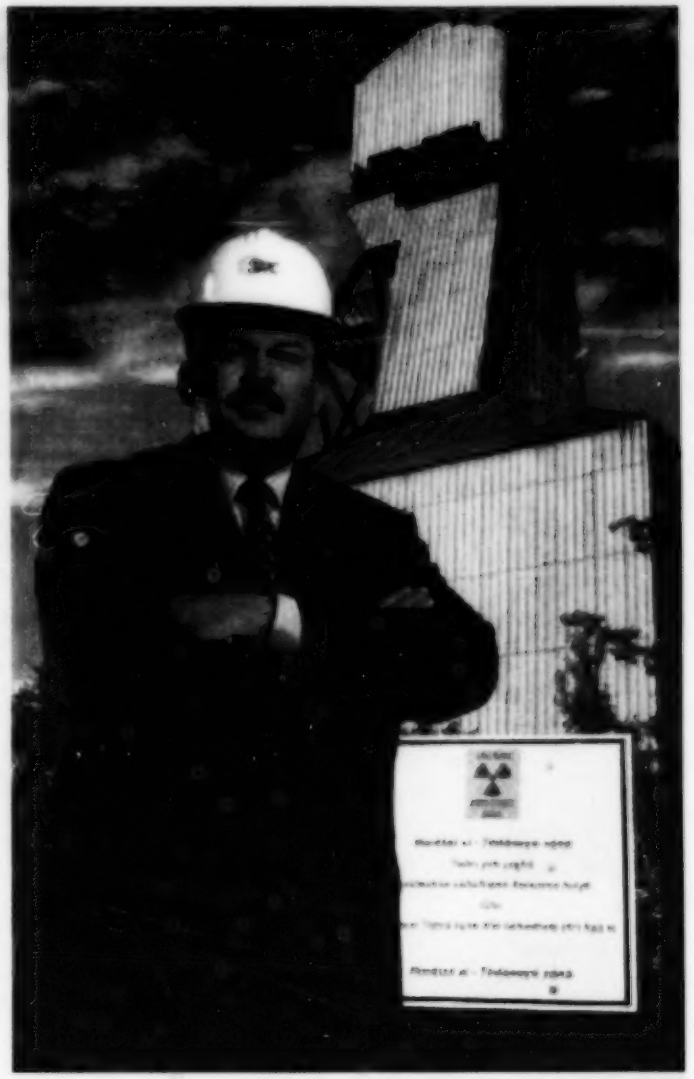
As SRC's Acting-Chair, I want to give thanks to our retiring Chair, Keith Hanson. Keith's passion for everything that SRC does helped fuel the strong growth of the company over the past half-decade. Two other board members also retired this year, Mike Monea and Larry Cooper. Along with Keith, they were, and remain, tireless supporters of SRC. It is no coincidence that the company experienced the strongest growth in its history while these gentlemen were on the Board, and we owe them a great deal.

Even more, SRC owes its success to the hard work and determination of everyone in the SRC community, past and present. Today's SRC benefits from the countless contributions of its employees since 1947, and our current staff is building the foundation that will drive SRC into an ever evolving future. Judging from the changes over the past 60 years, all we can say is that tomorrow's SRC will be different, but it will always continue contributing to the prosperity of Saskatchewan and its residents.



Craig Zawada
Acting Chair, Board of Directors

Message from the President



Our theme for this year's 60th Annual Report is Looking to the Future. This is an appropriate theme as we are not only celebrating this anniversary, but also planning and preparing for the future. We can look forward with confidence to a bright future for this organization and this province.

This year marks several milestones for SRC. It is our 60th anniversary. It is a year in which we've not only secured some of our largest projects ever, but also undertaken our largest expansion in SRC's history. It also marked the completion of SRC's previous 5-year strategic business plan, and the creation of our new 2007-2012 5-year strategic business plan.

SRC will continue to improve and expand its service capabilities as we fulfill our commitment "to enable our customers to thrive in the world economy, and to benefit Saskatchewan." Consequently, our new strategic business plan anticipates growth in every one of our eight divisions over the next five years. We are well positioned to achieve this growth when we consider some of the highlights from our past year:

- SRC had a strong role in biofuels development and support in Saskatchewan. In our Energy Division, we opened the new SRC Biofuels Test Centre™ in Regina which offers a suite of tests relating to ethanol and biodiesel. As well, we continued to assist the New Generation Co-op in Nipawin by developing a made-in-Saskatchewan process that will make the production of ethanol from biomass economical.
- Our Alternative Energy and Manufacturing Division launched a globally unique tractor, that runs on 100 per cent hydrated ethanol, and which is now undergoing field testing and demonstration. The division also completed the Factor 9 Home project, featuring a home that reduces energy consumption to nine times less than the average, existing Saskatchewan home.
- Our Office of Energy Conservation was very effective in promoting energy conservation on several fronts, leading to significantly reduced energy use and reduced greenhouse gas emissions. One such innovative program supported municipalities in their efforts to cut costs by using more efficient lighting.
- In our Agriculture, Biotechnology and Food Division, the Fermentation Pilot Plant supported commercialization of a new vaccine for pigs. The pilot plant will produce initial batches of the vaccine, developed to control post-weaning diarrhea, according to the stringent criteria of the Canadian Food Inspection Agency.
- This has been another intense year for our Mining and Minerals Division, which

continued to grow in response to the expanding mineral exploration industry. This year the Division had record levels of client demands from the uranium, gold and diamond industries. In addition, they implemented an expansion to add 1375m^2 of space to significantly increase their diamond service capacity.

- I am very proud that SRC was chosen to manage the major orphaned uranium mine site cleanup program in the Uranium City area. The $24.6 million project, to which we refer as Project CLEANS (CLEanup of Abandoned Northern Sites), is jointly funded through the federal and provincial governments and will be carried out by our Environment and Forestry Division.

As we grow, we continue to strive to ensure that safety remains an over-riding priority at all levels and in all aspects of our work. As our safety strategy moves us to continuous improvement we continue to develop and implement new and improved safety practices, and to track them with leading and lagging indicators that help us to learn from the past and prepare to meet the future.

Sixty years into its continuing mission, SRC is positioned as Saskatchewan's premier provider of applied research, development, and technology demonstration. Success for SRC means creating positive impacts for Saskatchewan. The investment Saskatchewan has made, and is making, in applied science and technology is paying off. Our annual economic impact assessment shows that we again achieved all-time record impacts this year with over $400 million in direct economic benefit to the province plus 3,000 jobs created or maintained. This means that for every dollar invested in SRC, we provide a 46-times return. Probably no other Canadian research institution can say the same.

Important impacts for us are not simply in the areas of economic activity and jobs, but also in non-financial areas such as the safety, security, and sustainability of the environment in which we live. To extend beyond the economic impact assessment noted above, we took the process to a new level this year to gain a better understanding of our non-financial impacts. Through this process, we identified that over $12 million worth of our project work was significantly aimed at creating positive environmental and/or societal impacts. Among the benefits is a finding that our work contributed to at least 24,000 tonnes of greenhouse gas emission reduction or prevention. These are significant achievements and illustrate how SRC's positive impacts are now expanding.

We have indeed come a long way since 1947, and our successes are the result of exemplary achievements by dedicated people. I thank our employees and our Board of Directors for their enthusiasm, their creativity, and their contributions. At SRC we are realizing synergy: the whole is definitely greater than the sum of our parts. We are now planning and mobilizing to meet the future needs of businesses, communities, and industries. I would also like to thank our more than 1,700 clients and partners for their support and commitment to mutual success – we are successful when you are. As we take stock in this, our 60th year, we can look back on a proud history of accomplishment, and we can look forward to a future in which we work together to further unlock the tremendous potential that is latent in Saskatchewan. The outlook is fantastic!

Laurier Schramm
President and Chief Executive Officer

Board of Directors

Left to right (seated): Patsy Gilchrist, Doug Kellin – Acting Vice-Chair, Dan Bonham-Smith
Left to right (standing): Craig Zawada – Acting Chair, Lauree Schramm – Secretary, John Bennett

Executive Team

As of April 1, 2007

President & CEO
Lauree Schramm

Alternative Energy and Manufacturing
Craig Murray
Vice-President

Agriculture/Biotechnology
Dale Kelly
Vice-President

Business Ventures and Communications
Wanda Nyirfa
Vice-President

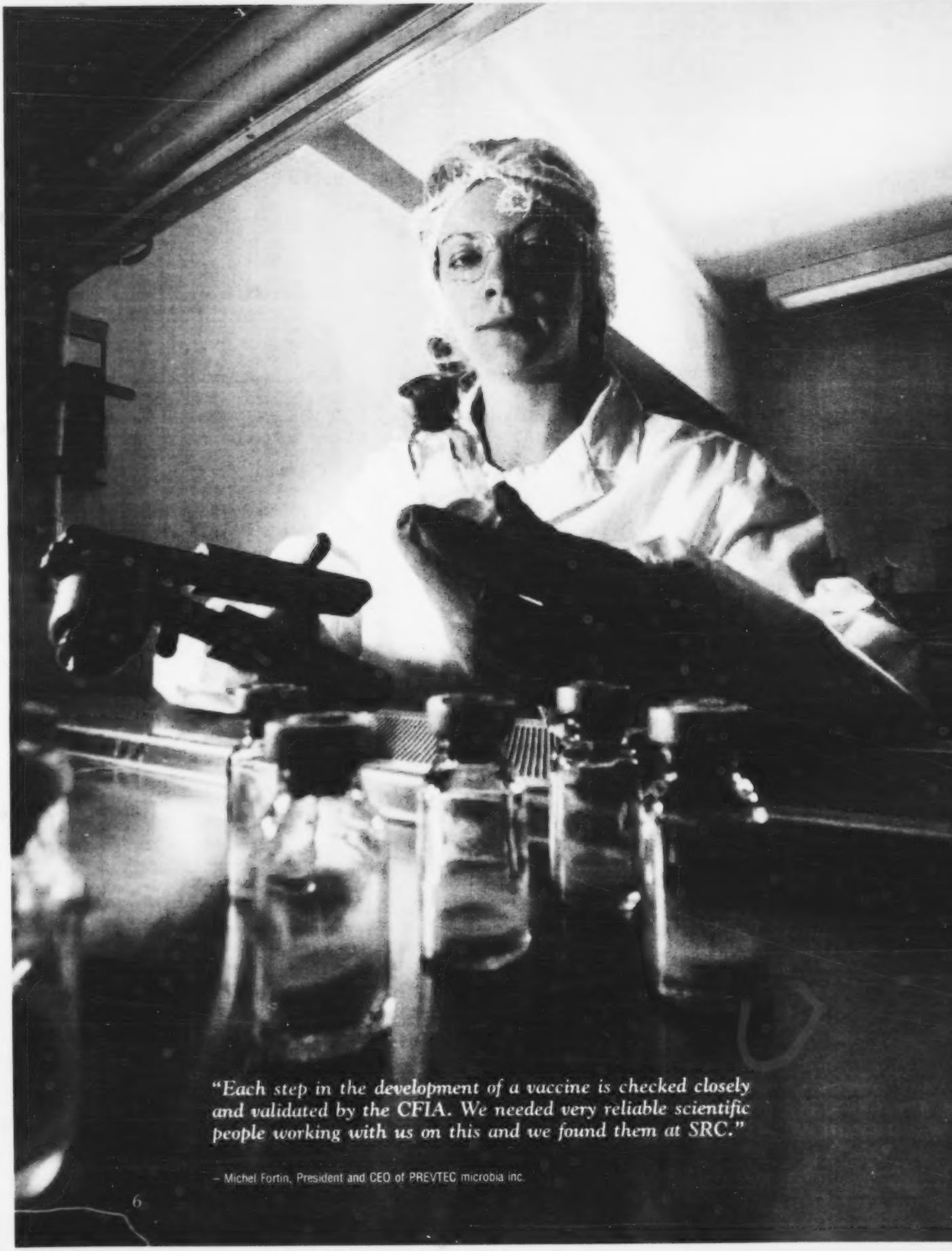
Energy
Ernie Pappe
Vice-President

Environment and Forestry
Michael Weiden
Vice-President

Finance, Safety & Risk and Chief Financial Officer
Crystal Smuck
Vice-President

Mining and Minerals
Paul Labbé
Vice-President

Organizational Effectiveness
Toby Arnold
Vice-President



"Each step in the development of a vaccine is checked closely and validated by the CFIA. We needed very reliable scientific people working with us on this and we found them at SRC."

– Michel Fortin, President and CEO of PREVTEC microbia inc.

Agriculture, Biotechnology and Food

SRC's Fermentation Technologies Business Unit Gets a New Name

Since 1999, SRC has been operating its high-tech Fermentation Pilot Plant and associated labs as the Fermentation Technologies Business Unit. With the development of SRC's 2007-2012 strategic plan, the unit has been renamed "Health and Food."

Why the change? It's to reflect the industries being served. Traditionally the group has worked on animal health projects such as vaccine development or crop improvement projects such as microbial inoculants. Today the business unit maintains its Level 2 GLP (good laboratory practices) capabilities, but has expanded to support additional Health and Food technologies targeted at nutraceuticals and proteins.

"The new name better suits the work we've been conducting for years," says Amy Friesen, Lead Scientist and Acting Supervisor for the business unit. "Our former name, 'fermentation' often left people uncertain as to what kinds of activities we carried out. The new name 'Health and Food' not only captures our fermentation work and process development work, but better describes the industries we are targeting."

The Health and Food Business Unit boasts unique capabilities in Saskatchewan. The Biosafety Level 2 Fermentation Pilot Plant facility is able to provide process development services and supports bacterial, fungal, algal and recombinant fermentations at 10 L to 300 L scale. Up to 6 identical fermenters can be used simultaneously to optimize process parameters and media constituents.

In addition, the Health and Food Business Unit recently added the ÄKTA Pilot chromatography system to its repertoire of tools and technologies. A team of three employees have been trained by GE Healthcare to use this powerful tool. Along with the ÄKTA Explorer for process development, it has a wide-range of uses including the purification of proteins for use in enzymes, vaccines, nutraceuticals, and natural health products. It will allow clients to extract large quantities of valuable proteins for food, pharmaceutical, or industrial use for microorganisms and plants.

The expertise and knowledge of the employees in the Health and Food Business Unit, combined with leading edge tools and technologies, positions the lab to assist the Saskatchewan and Canadian health and food industries.

New Swine Vaccine Development

Animal health products, including vaccines, are stringently regulated by the Canadian Food Inspection Agency (CFIA). The process for getting a new vaccine to market is designed to protect animals, animal handlers, producers, and the general public.

SRC's Fermentation Pilot Plant is working with PREVTEC microbia inc., a Montreal company, to produce pre-licence serials for a vaccine that controls post-weaning diarrhea in pigs.

The vaccine, called Coliprotec, is produced through fermentation. Large amounts of bacteria that produce antigen, or the vaccine's active ingredient, are grown in a fermentor by adding nutrients to the vessel under controlled conditions. The cells and antigen are then processed into a form that makes the vaccine easy for farmers to store and use.

The vaccine has been tested in animals, including swine, to demonstrate its safety and effectiveness. One of these tests took place at the Vaccine and Infectious Diseases Organization (VIDO) at the University of Saskatchewan. The close proximity of SRC to VIDO was convenient because the vaccine, prepared at SRC, could be introduced to the animals at VIDO a short time later. Since there was no need to ship the product, the vaccine's chain of custody was never in question.

"Each step in the development of a vaccine is checked closely and validated by the CFIA," says Michel Fortin, President and CEO of PREVTEC microbia. "We needed very reliable scientific people working with us on this and we found them at SRC. We anticipate having a conditional license for the vaccine with the finalization of the three lots and to then proceed to a full license and commercial production, in Canada at first and later the US and beyond. We expect to work with SRC in subsequent stages of development."

The completion of this work will bring new status to SRC's Fermentation Pilot Plant as the only contract research organization in Canada with a Veterinary Biologics establishment license. This unique achievement will help bring new business to Saskatchewan and new health care products to livestock producers in this province and throughout Canada.

GenServe Laboratories™ - A Unique Provider of DNA Services

When GenServe Laboratories™ first opened in the late 1990's, the business was focused on supporting plant genetics. Since then the lab has expanded its service offerings to support a multiple number of industries ranging from crops to animals to microorganisms.

The common thread in GenServe's services for its diverse client base, is DNA testing. The lab conducts high throughput DNA testing and DNA finger-printing to establish identities and assess relatedness between individual samples.

A unique project the lab has been working on is assisting the Saskatchewan Beekeepers' Association (SBA) to improve genetic resistance to parasitic mites that are threatening North America's honey and pollination industry. Through this process new genetic stocks selected from hybridized varieties have been introduced into the local bee population to help improve resistance. Future work will focus on determining links between favourable hygienic and production traits and specific genetic markers. Utilization of hybridized honeybee varieties with favourable genetic traits will enable the honeybee farmer to decrease dependence on chemical treatments for disease and parasites, while increasing honey yield.

GenServe is currently establishing ultra-high throughput genotyping capabilities to complement its existing services. To achieve this, the lab will utilize automated DNA extraction and the Sequenom SNP (single nucleotide polymorphism) platform. This platform technology is unique in Saskatchewan and will allow the lab to significantly increase efficiency and productivity.

In addition to its enhanced technical capabilities, GenServe is also in the process of building a genetic database for high-value organisms. Ultimately, GenServe will be positioned to better support a wide range of industries in Saskatchewan and across Canada.

Bioprocessing – A New Business with Long-time Roots

SRC has a long history of working in the area of Bioprocessing ranging from biofuels to bioproducts. But a new milestone was reached during the development of SRC's new strategic plan with the creation of the Bioprocessing Business Unit.

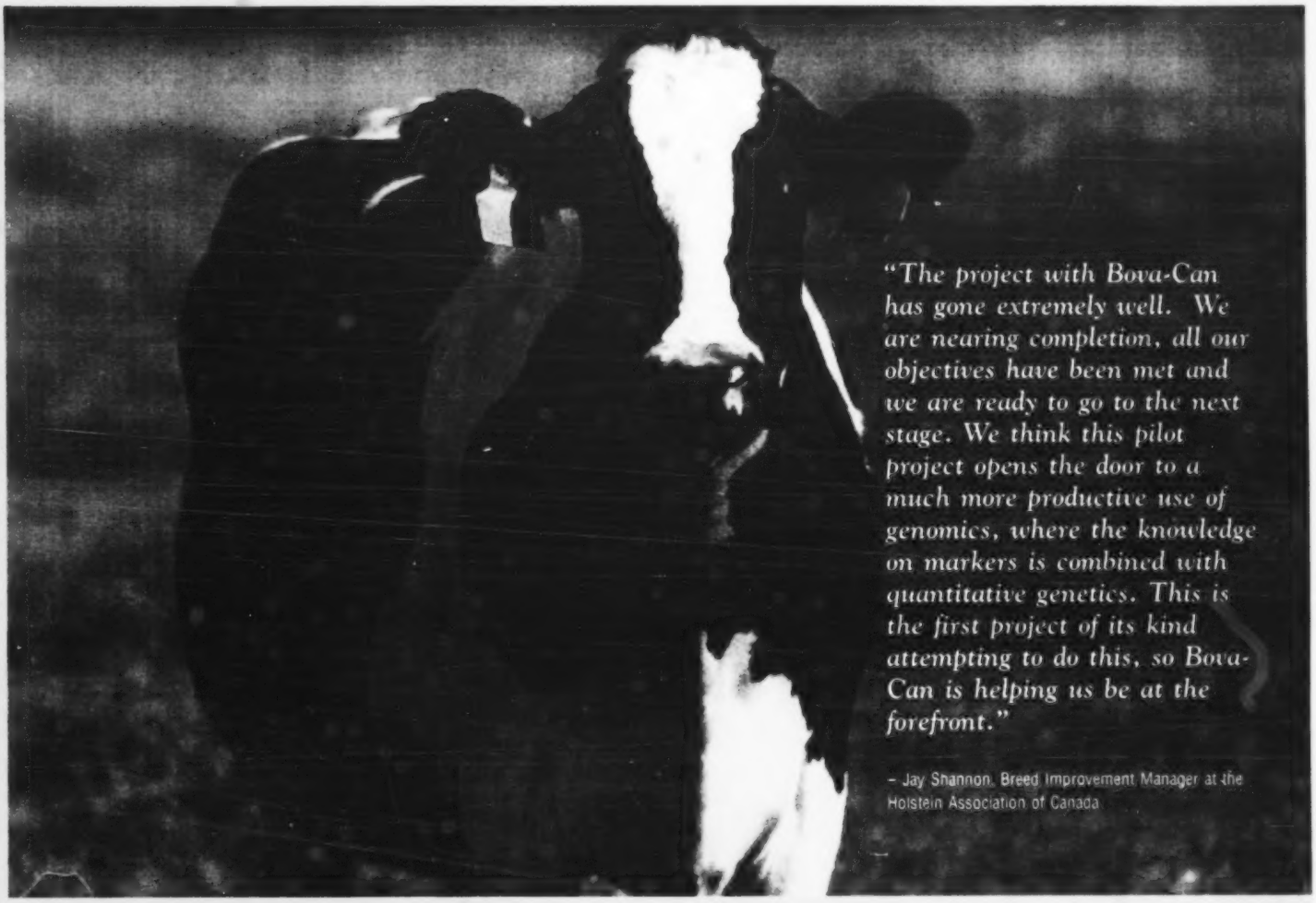
"The Bioprocessing Business Unit intends to be the focal point for all of SRC's production work related to biofuels and bioproducts," says Darren Anweiler, Team Leader for the new area. "It's an exciting development, as the area of bioprocessing has garnered a great deal of attention at both the federal and provincial levels over the past couple of years."

The goal of the business unit is to work with industry to develop processes, products and fuels related to biomass. The opportunities are endless and SRC already has a demonstrated track record in this area. A recent example, is SRC's work on a made-in-Saskatchewan ethanol technology for an initiative in Nipawin. The goal of the project is to use forestry and agricultural biomass, such as wood chips and excess straw, as a feedstock. The multi-year project includes technology development and plant design, along with analysis of the environmental implications, feedstock availability and marketing potential.

As Saskatchewan communities and companies seek new ways to maximize local bioresources, SRC's experience and focus in bioprocessing will help to support new opportunities.

Ear Tags Enhance Animal Traceability, Research

SRC's Bova-Can Laboratories is a partner in the Holstein Association of Canada's pilot project to test an innovative identity tag in Canadian dairy herds. Initial results indicate that the tagging system, which uses a Biopsytec identity tag, will effectively trace individual animals throughout the food chain.


"The project with Bova-Can has gone extremely well. We are nearing completion, all our objectives have been met and we are ready to go to the next stage. We think this pilot project opens the door to a much more productive use of genomics, where the knowledge on markers is combined with quantitative genetics. This is the first project of its kind attempting to do this, so Bova-Can is helping us be at the forefront."
– Jay Shannon, Breed Improvement Manager at the Holstein Association of Canada

The project allows researchers to collect a large number of genetic samples for trait identification and research purposes. Researchers obtain a tissue sample after the tag is inserted into a calf's ear at birth. Funded through the Advancing Canadian Agriculture and AgriFood program, the project is in its second year and there have been two rounds of tagging across Canada.

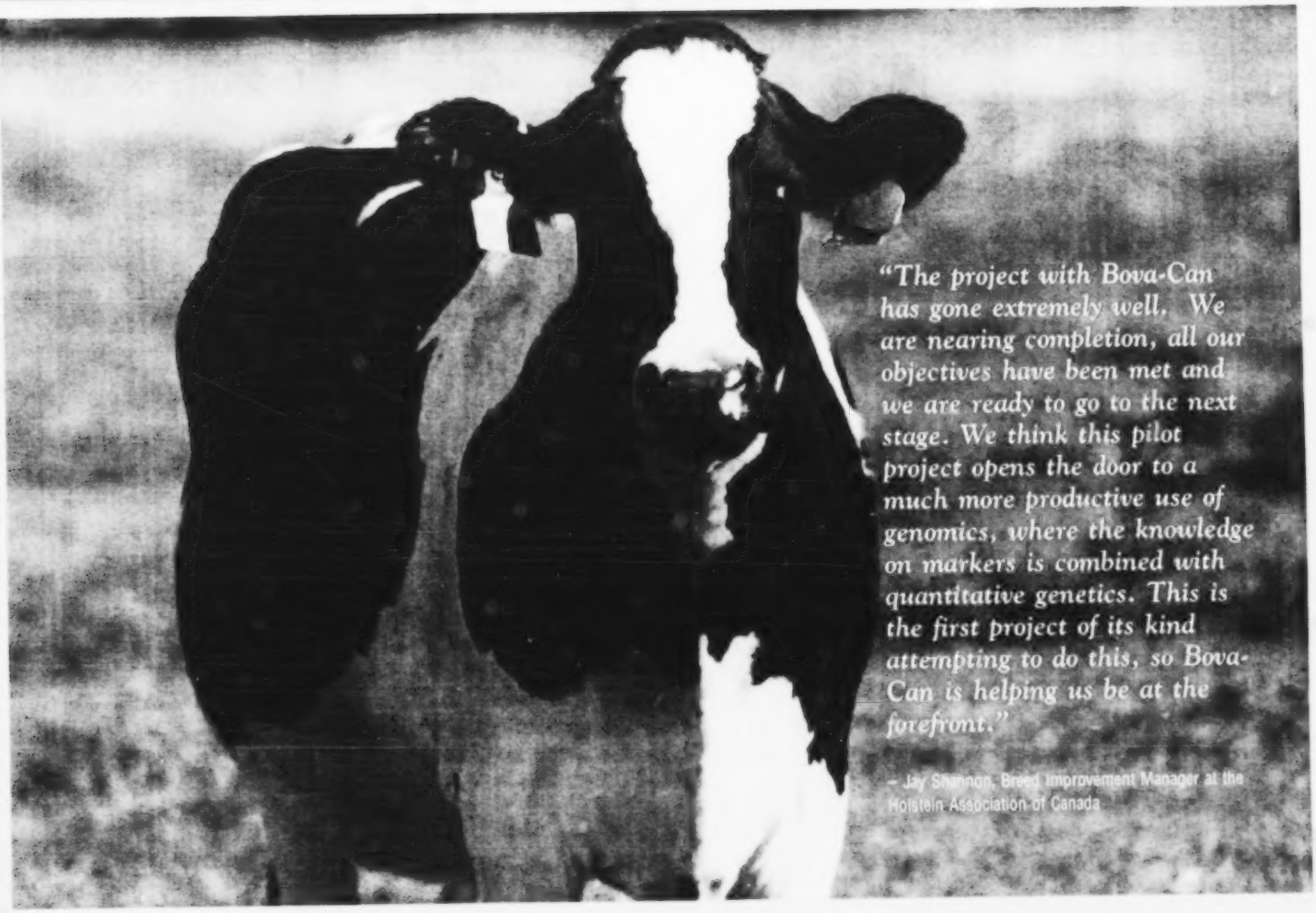
Researchers have conducted testing simulations to determine if the tagging system can trace a specific animal whose genetic information is contained in the research database. For the test, producers provided 45 hair samples from cattle that had "lost" their ear tags, which were then positively matched from a database of 170,000 records.

While the main project goal is to identify parentage and desirable breeding traits, it may also assist in identifying the source of a disease outbreak, such as Bovine Spongiform Encephalopathy (BSE), commonly called Mad Cow Disease. A genetic sample from an untagged, infected carcass could be traced to its herd of origin and the specific animal identified using the database of samples.

The project also has significant research applications. In the future, researchers interested in retrieving DNA could potentially submit a request to have DNA from the database prepared for use in a range of research, from disease genetics through parentage testing to selection criteria.

"The project with Bova-Can has gone extremely well," comments Jay Shannon, Breed Improvement Manager at the Holstein Association of Canada. "We are nearing completion, all our objectives have been met and we are ready to go to the next stage. We think this pilot project opens the door to a much more productive use of genomics, where the knowledge on markers is combined with quantitative genetics. This is the first project of its kind attempting to do this, so Bova-Can is helping us be at the forefront."

Increasingly, Bova-Can is considered a key collaborator in genetic research that can add value to Canada's cattle industry by enhancing the safety, security and profitability of the cattle industry and food system.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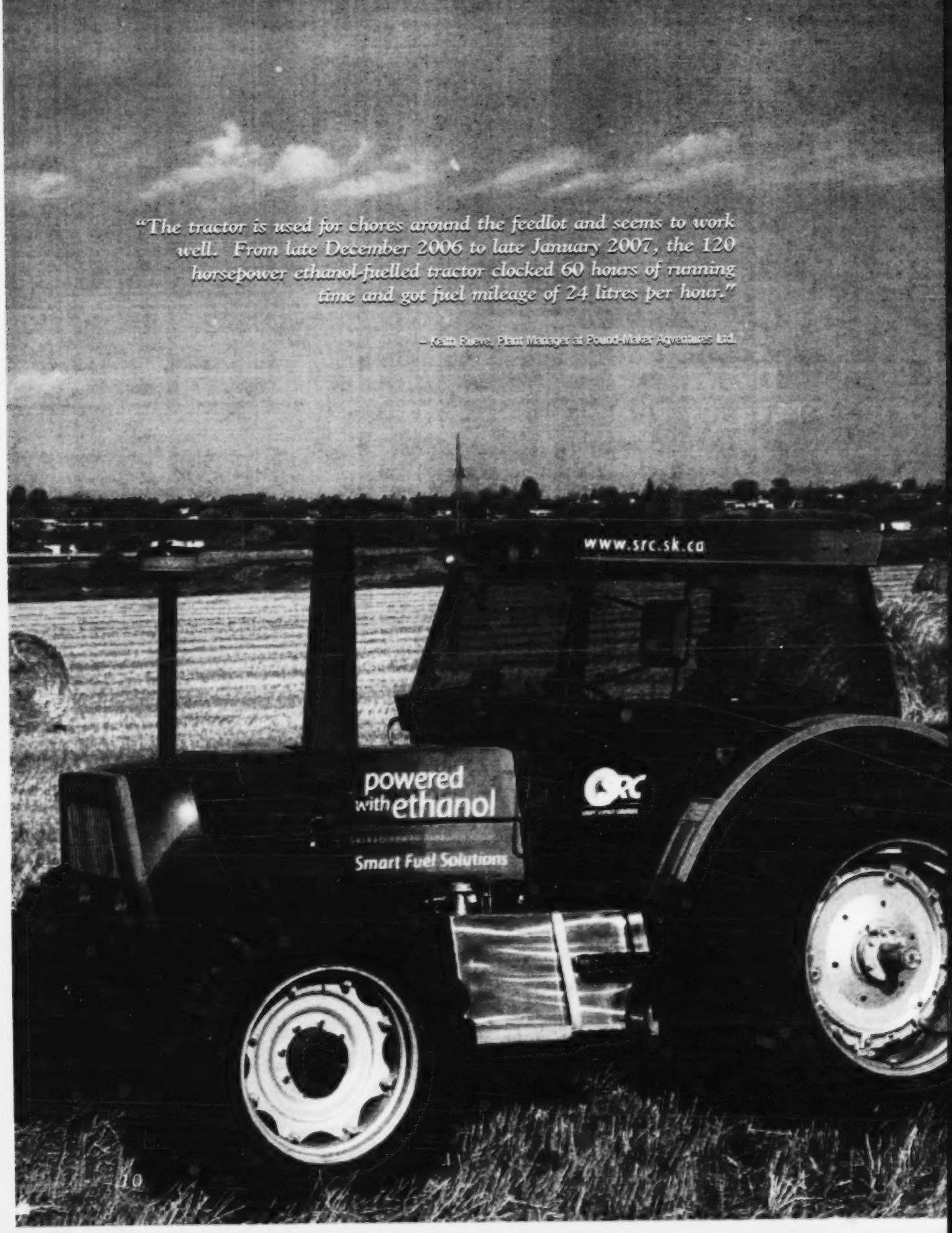

"The tractor is used for chores around the feedlot and seems to work well. From late December 2006 to late January 2007, the 120 horsepower ethanol-fuelled tractor clocked 60 hours of running time and got fuel mileage of 24 litres per hour."
– Keith Rueve, Plant Manager at Pound-Maker Agventures Ltd.
www.src.sk.ca
powered with ethanol
Smart Fuel Solutions

Tractor Operates on Hydrated Ethanol

In the future, farmers may be able to reduce their operating costs by producing biofuels on the farm. That scenario became more feasible after SRC successfully modified a tractor to operate on 100% hydrated ethanol.

Hydrated ethanol contains 5% water, explains Bryan Lung, Senior Research Engineer with SRC, part of the team that modified a 1985 Deutz-Allis 7110 tractor to operate on the biofuel. "It is easier to make than the water-free, anhydrous ethanol commonly available today in gasoline-ethanol blends, since a final refining step that removes the water is not required. Hydrated ethanol should be somewhat less costly and energy intensive to make."

SRC's ethanol tractor originally ran on diesel fuel. To run on hydrated alcohol, it required a new fuel system controller, fuel pump, fuel filter, injectors and a special cold start system. It uses about 1.7 litres of ethanol for every litre of diesel that the tractor would otherwise run on.

The tractor is being tested, appropriately enough, at Pound-Maker Agventures Ltd., an ethanol plant located near Lanigan, Saskatchewan. Pound-Maker is unique because its ethanol plant is integrated with a feedlot operation.

"The tractor is used for chores around the feedlot and seems to work well," says plant manager Keith Rueve. "From late December 2006 to late January 2007, the 120 horsepower ethanol-fuelled tractor clocked 60 hours of running time and got fuel mileage of 24 litres per hour." It takes about 15 bushels of wheat to create one tank of hydrated ethanol for the tractor.

Government officials and tractor manufacturing representatives from India have expressed interest in the ethanol tractor, and SRC may develop a diesel/ethanol-fuelled tractor for use in that country. Lung also says a tractor that runs on a combination of diesel and ethanol would eliminate most cold-start issues here in Saskatchewan.

SRC's ethanol/diesel prototype truck is another vehicle that was developed by SRC's Alternative Energy Development Business Unit. The 2005 GM truck has a specialized fuel system controller and re-calibrated fuelling system. It offers environmental benefits, such as reduced nitrogen oxide emissions. The truck may also run on 100% diesel fuel, which is a useful option for when it is not convenient to purchase ethanol.

SRC is actively facilitating wider adoption of biofuels, which it sees as one way to revitalize the economy of rural Saskatchewan.

Optimizing Dual-Fuel™ Hydrogen Vehicle Design

SRC is a world-leader in the development of Dual-Fuel™ hydrogen systems, with several vehicle prototypes now being tested and demonstrated. To move towards commercialization, however, the cost, functionality, and reliability of these systems must be optimized.

SRC and Natural Resources Canada have been collaborating on a project to take the optimization forward. The project's objectives were to develop a pre-production electronic control unit for Dual-Fuel™ hydrogen vehicles and to reduce the cost of the Dual-Fuel system, while improving functionality and reliability.

Specifically, the project aimed to integrate and simplify the electronic control system, establish a testing protocol to validate functionality of the engine control unit, re-design the fuel delivery system, and upgrade the software to improve functionality. These developments will help to prepare the technology for demonstration across Canada and move the technology closer to commercialization.

The design of a new engine control unit for Dual-Fuel™ operation is now complete. It has been used to modify a 2006 GM Silverado 1500 series pickup with a 5.3 litre engine. The new electronic controller reduces costs and improves the reliability of the entire Dual-Fuel control system.

In addition to the dramatic simplification of the electronic system, the project also involved further enhancements that move the technology closer to commercialization. This included software developments to provide automatic fuel switching and cold starts on hydrogen to improve overall functionality. As well, a quality control program was developed to allow the pre-production controller to be tested and validated through the use of defined environmental and vibration testing protocol.

These control system enhancements improve cost, reliability, function, and aesthetics in the hydrogen-fuelled vehicles. These improvements will pave the way for vehicle demonstrations and sales. It is expected that hydrogen demonstrations across Canada will be high profile, and it is important to demonstrate technology that provides an improved level of reliability, robustness, and quality.

SRC's ongoing work on hydrogen-fuelled vehicles contributes to a more sustainable transportation system and provides new opportunities for Saskatchewan businesses.

Designing an Intelligent System for Oil-Water Separation Processes

Crude oil production yields an oil-in-water emulsion that must be separated to yield a clean crude oil with less than 0.5% base solids and water (BS&W). The emulsion is processed near the well site in a field battery treater unit that removes the water, aided by a control device.

SRC is participating in a project to design an intelligent control system for field battery units that has the potential to save oil producers about 10% of their overall costs. For a typical battery, which processes production from several wells, a 10% saving would be more than $500,000 per year. With hundreds of batteries in the oil producing areas of Saskatchewan, savings could be considerable.

Currently, the oilfield treater battery separation process is not optimized. The typical control process requires a trained operator with considerable operational experience to achieve oil production specifications and there is often little or no optimization in terms of cost.

The cost savings resulting from an advanced control system would result from lower energy consumption and operating costs, reduced chemical inputs, and lower investment on new treating facilities. Reduced greenhouse gas emissions would be an added benefit.

Results from the treater model indicate that the Oil-Water Separation (OWS) Optimizer software has the capability to handle dynamic changing conditions for the treater while avoiding treater upset. This allows the treater to be operated closer to the BS&W cutoff of 0.5%, thus reducing chemical use and costs.

In addition to SRC, participants in the Intelligent System for Oil-Water Separation Processes project are Precarn Incorporated, Saskatchewan Industry and Resources, Telmon Communications, Husky Oil and Nexen Inc.

The optimization software developed during this project was field tested at Husky's Tangleflags heavy oil treating facility near Lloydminster. Further field trials are needed to fully quantify savings and evaluate control system performance.

Projects like Oil-Water Separation help to solve practical problems for industry, helping to improve profitability and reduce environmental impacts.

"Our family had researched a lot of innovative options for our new house, and we were interested in lowering the environmental impact of our house. SRC helped out with a number of low cost energy and water saving tips. Their knowledgable staff contributed a substantial number of useful ideas to the process."

– Grace McLeod, Homeowner, AC Centennial Project

New Generation Home Built Specifically For First Nations' Market

Through a collaborative project, SRC's Building Performance Business Unit created an innovative, new generation home with the First Nations' housing market in mind.

SRC worked with Communities of Tomorrow and AC Realty, a home manufacturer owned by the Agency Chiefs Tribal Council, to fund and design the AC Centennial Home. Although the demonstration home was designed for the First Nations' market, it is also available to all developmental agencies and the general public. The prototype is now ready for occupancy.

This innovative new generation home is affordable, compliant with the National Building Codes, and meets Canada Mortgage and Housing (CMHC) standards and criteria. In addition to many other features that make these homes unique, specific energy-efficiency features designed by SRC to lower operating costs include:

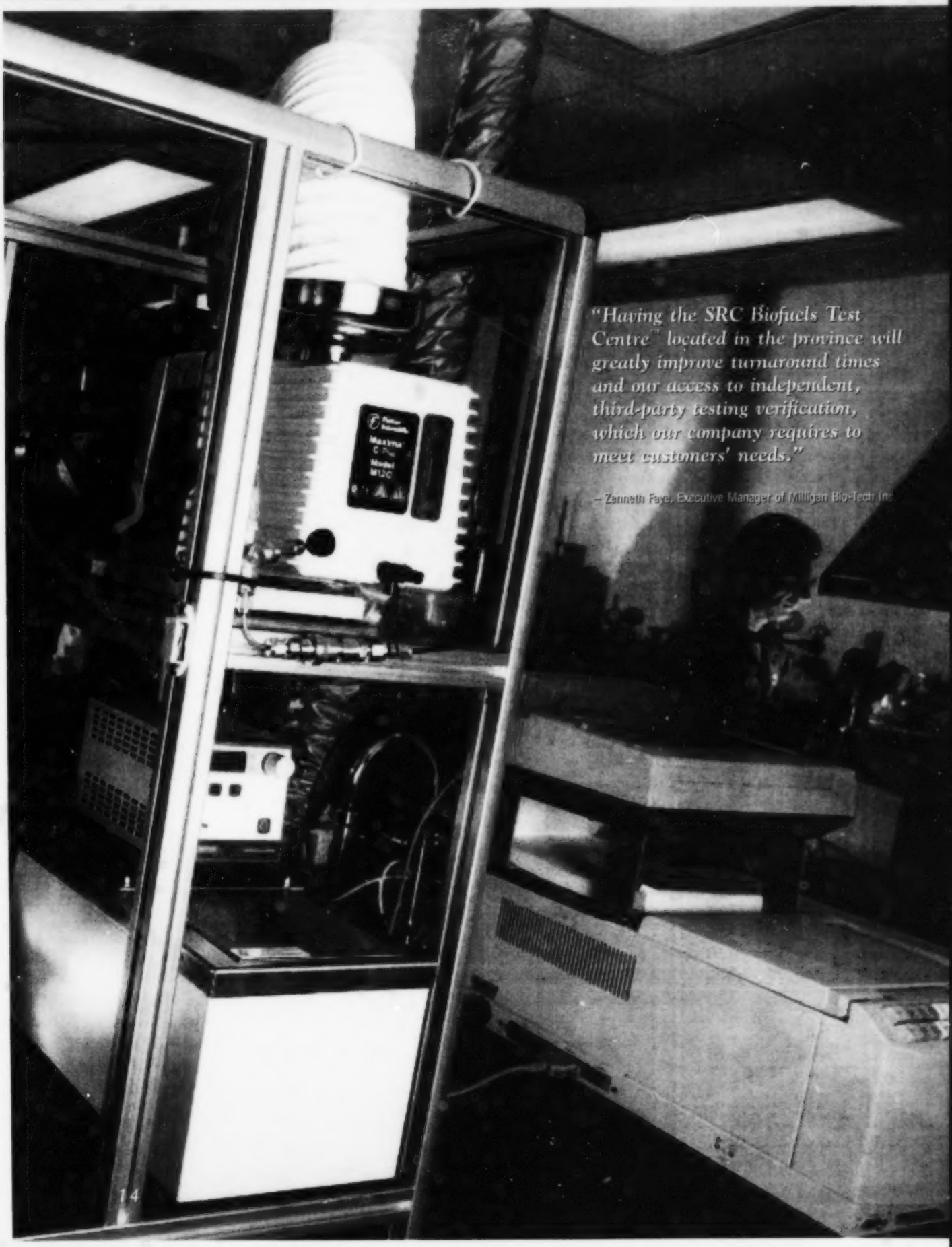
- Southern orientation of the house for passive solar heating gain;
- Improved air-tight walls and ceilings and higher-density batt insulation in exterior walls;
- Condensing high-efficiency natural gas furnace;
- Lower cost air-to-air heat exchanger and a waste-water heat exchanger;
- Instantaneous tankless water heater; and
- Energy Star® appliances and compact fluorescent light bulbs.

Together these features are expected to reduce energy use by 35% compared to the Canadian Model National Energy Code for Houses. Water use will be reduced by 20% compared to similar Saskatchewan homes. The features used to attain these reductions have low or no incremental costs.

SRC continues to be a leader in the development of sustainable housing technologies for a variety of market segments.

"Having the NRC Biofuels Test Centre" located in the province will greatly improve turnaround times and our access to independent, third-party testing verification, which our company requires to meet customers' needs."

– Zenneth Faye, Executive Manager of Milligan Bio-Tech Inc.



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SRC Opens Biofuels Test Centre™

As biofuels receive greater attention from government, the ethanol and biodiesel industries are expected to expand. SRC is well positioned to support biofuels growth through its new $1 million Biofuels Test Centre™.

"Having the SRC Biofuels Test Centre™ located in the province will greatly improve turnaround times and our access to independent, third-party testing verification, which our company requires to meet customers' needs," says Zenneth Faye, Executive Manager, of Milligan Bio-Tech Inc. Milligan Bio-Tech produces biodiesel at its plant in Foam Lake, Saskatchewan.

The key to success in the biofuels market is assurance of a high-quality product, explains Faye. Industry clients use SRC's services to determine whether a particular biofuel product meets required specifications for properties such as sulphur content and viscosity. This third-party assessment is important to businesses that require independent results.

As an accredited facility, the SRC Biofuels Test Centre™ has the capability to test biofuel samples to ensure products meet recognized quality standards. In conjunction with SRC's analytical laboratories in Saskatoon, the Centre offers a complete series of tests to assess the chemical composition and quality of ethanol and biodiesel samples. Before the Centre opened in late 2006, SRC's biofuels testing capabilities were limited to ethanol.

"This industry has been growing rapidly and we are increasingly busy," says John Robinson, the centre's laboratory manager. "Government initiatives are likely to further accelerate growth. Opening the centre when we did was very timely."

The SRC Biofuels Test Centre™ reinforces SRC's role in an emerging Saskatchewan industry that is expected to boost the province's economic base and improve its environmental performance.

Improving Oil Productivity in the Viking Reservoirs

The Viking oil reservoirs in west-central Saskatchewan are well known for containing vast amounts of sweet light oil, but notorious for their poor recovery history. "Only about 10% of the oil can be recovered with conventional methods," says Dr. Selim Sayegh, Principal Research Engineer at SRC. "We are working to find innovative, affordable solutions to sustain production from these reservoirs."

Two central problems are to blame for low recovery rates. First, clays present in the geological formations make those formations sensitive to fresh water. As a result, waterflood recovery methods under-perform. Waterflooding involves pumping water into oil reservoirs to maintain pressure and displace oil to the producing wells.

Second, the oil tends to deposit organic scale—waxes and asphaltenes—that can clog and damage production facilities. Removing the scale from production and surface facilities is costly. Six companies, including conventional producers and royalty trusts, have joined forces with the Petroleum Technology Research Centre to support a two-year SRC project aimed at solving the above two problems.

"SRC's research on the Viking fields could help unlock one of Saskatchewan's best — but nearly untapped — resources of sweet light crude," says Brian Kristoff, Acting Executive Director of the Petroleum Technology Research Centre. "Finding out why waterfloods have had such mixed success, working well in certain areas and so poorly in others, and how to overcome the barriers to production, are vital to the client consortium, including the PTRC, and to the province."

With waterflooding, benefits can be obtained by selecting the most appropriate injection water and finding additives to decrease the formation's sensitivity to it. Accordingly, Sayegh's team carried out experiments on reservoir cores to test the formation damage/repair effectiveness of various water mixtures and commercial additives. These

tests confirmed the importance of proper water selection and treatment prior to injection. As well, some success was obtained in repairing damaged cores. Further studies are planned.

At the Viking and other oil fields, SRC is applying its know-how to improve the productivity of Saskatchewan's oil reservoirs, contributing to the long-term prosperity of the province.

Heavy Oil Cold and Post-Cold Flow Modelling

Heavy oil cold production — or cold flow, as the recovery method is known in Saskatchewan — accounts for about 30 per cent of the province's total oil production. At this primary stage of operation, sand is most often produced along with the oil to boost recovery rates.
As the oil and sand mixture is pumped to the surface, tunnel-like wormholes, form within the reservoir.

"We know these wormholes play a role in production," says Dr. Bernard Tremblay, a Principal Research Engineer at SRC involved in the study of heavy oil recovery. "We have developed equations to describe how wormholes function in a reservoir. We are incorporating them into numerical models that estimate oil production rates in cold production."

Once cold production has run its course, the majority of oil will remain underground. Solvent-based processes are being tested in field pilot projects to recover the vast reserves remaining after cold production. One of the assumptions in this process is that the wormholes will effectively distribute the injected solvent and that the dissolved oil will be produced back through the existing wormhole network.

"Right now, we only recover 10 to 12% of the heavy oil resource," comments Karl Miller, Senior Staff Reservoir Engineer at Husky Energy. "State-of-the-art post-cold flow production is essentially limited to trying things to see how they work. When we don't understand where wormholes are located and how long they are, we can't design a process to take recovery forward. If we can get guidance from the kind of modelling SRC is developing, it would be considered very valuable."

In a joint effort between research providers, including SRC, and industry, field trial results are being analysed to better understand the process and to eventually get to the commercialization stage.

Optimum well spacing is another issue that SRC is tackling as it focuses on how to get more oil out of the ground. Tremblay is leading a project to develop a multi-well numerical cold production model to determine optimum spacing for wells so that productivity and economics may be balanced. Reservoir engineers will be able to use this model to find better ways to exploit a cold production field by determining where and when to drill wells, for example.

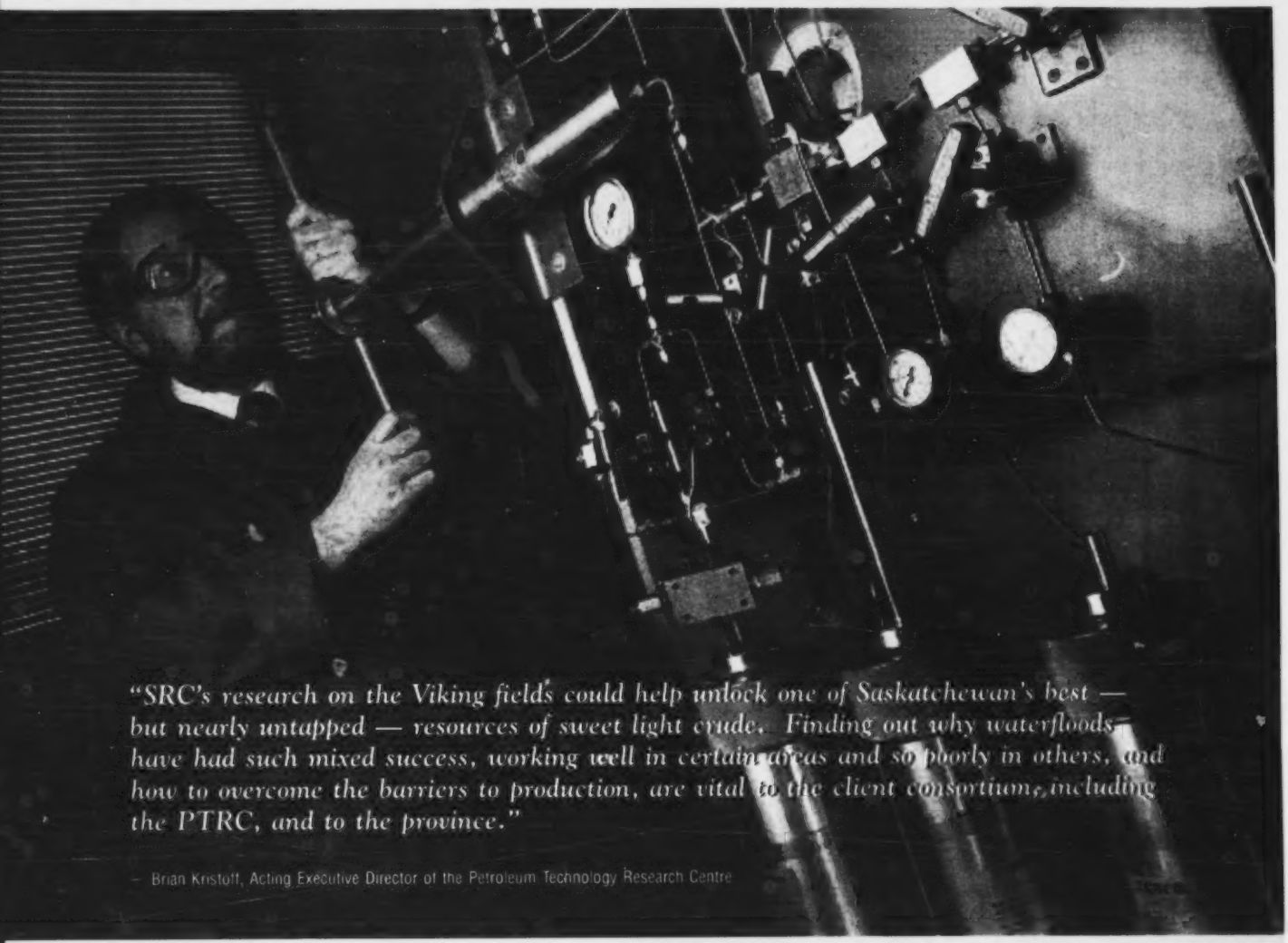
"In the lab we actually build a replica of the reservoir on a smaller scale, with injectors and producers, and experiment," says Tremblay. "Using production data obtained in the lab, we build numerical models that simulate what we can expect to get in the field."
SRC works with the oil industry to apply Smart Science Solutions™ to the problems of heavy oil production, increasing the long-term productivity of Saskatchewan's oil resource.

Collaboration to Provide Pipe Flow Technology Training

SRC's Pipe Flow Technology Centre™ and leading South African consultant Patterson and Cook Consulting Engineers (PCCE) have teamed up to provide advanced training in pipeflow technology for the mining, minerals and oil sands industries.

The new course focuses on applying the basic principles of slurry pipeline flows to actual design situations, including conventional slurry and thickened slurry systems. Participants learn about the principles governing the pipe flow of slurries and gain knowledge in applying appropriate scale-up methods for the design, implementation and operation of fine- and coarse-particle slurry pipelines.

SRC has conducted hundreds of slurry pipeline R&D programs and developed a primarily mechanistic model that describes the pipeline flow of settling slurries. PCCE has designed numerous slurry handling installations throughout the world and has a long involvement in training delivery. Through



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– Brian Kristoff, Acting Executive Director of the Petroleum Technology Research Centre

this collaboration, SRC will enhance the comprehensiveness of its courses in slurry pipeline design and operation by including more hands-on work.

SRC's Pipe Flow Technology Centre™ assists industry in increasing its expertise, finding economic efficiencies and adding value to products. All of this helps to grow the Saskatchewan economy.

Catalyst Improves Prospects for Biomass Ethanol

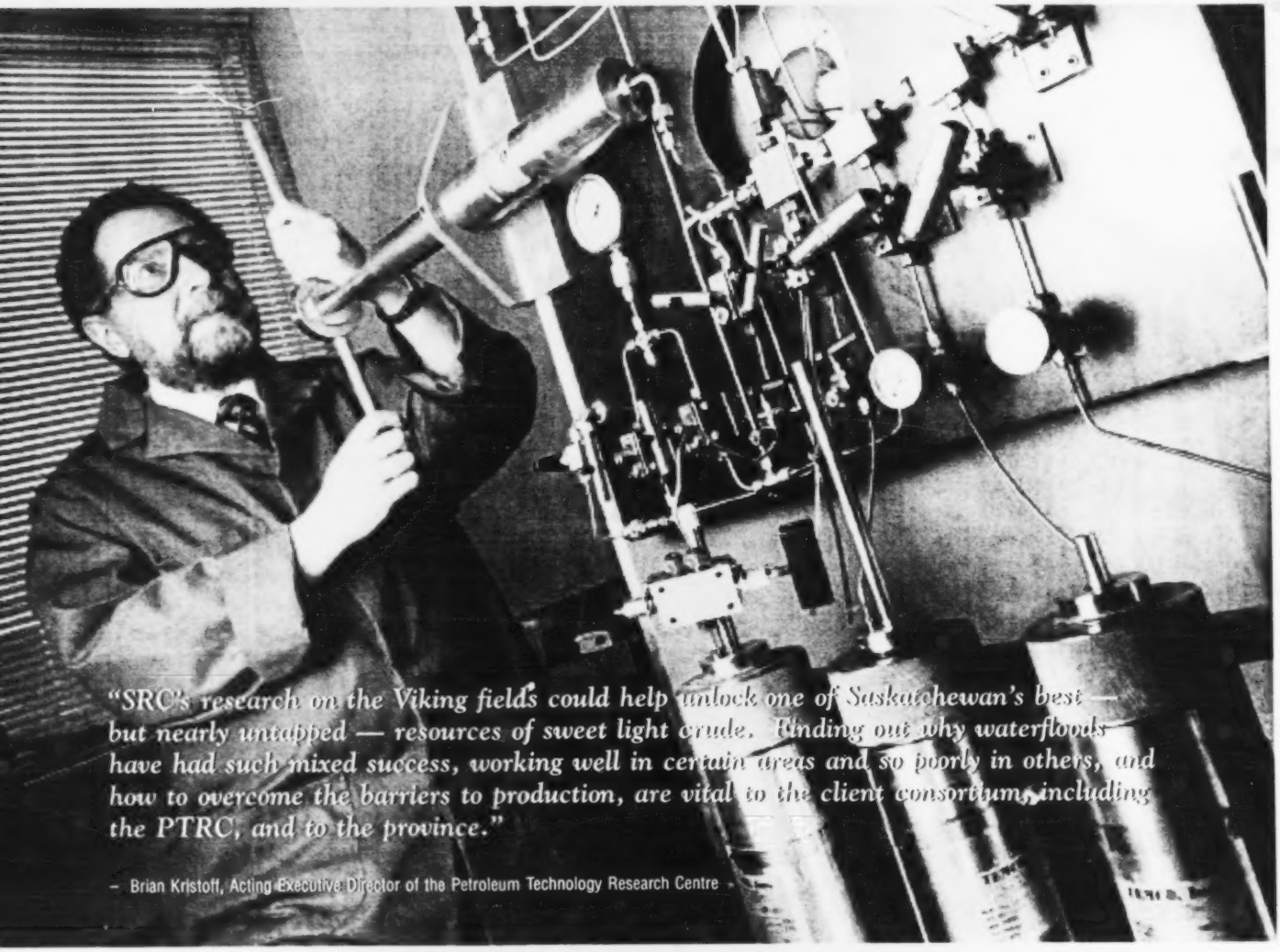
SRC is nearing completion of a two-year project to improve the process of making ethanol from biomass. The Nipawin Biomass Ethanol New Generation Co-op Ltd. will use that improved process at an ethanol plant it plans to build in the community.

"We have tested a number of catalysts that improve the conversion of synthetic gas, derived from cellulose, into ethanol," reports Doug Soveran, Manager of Production and Processing at SRC. "Specifically, we have been trying to find a catalyst that will maximize ethanol yield. Our search has been successful and we are confident we have a catalyst that can make a biomass ethanol plant economically viable."

Such work has been important to the co-operative.

"SRC has been a key player in our project here in Nipawin," says Sherry Michalyca, Economic Development Officer for the region and treasurer for the New Generation Co-op. "Working with them to commercialize this technology has been very positive. Now that we have our catalyst, we are concentrating on the other component of the project, refining our business plan and attracting partners."

SRC contributes to economic development and the viability of Saskatchewan's rural communities by supplying innovative science solutions.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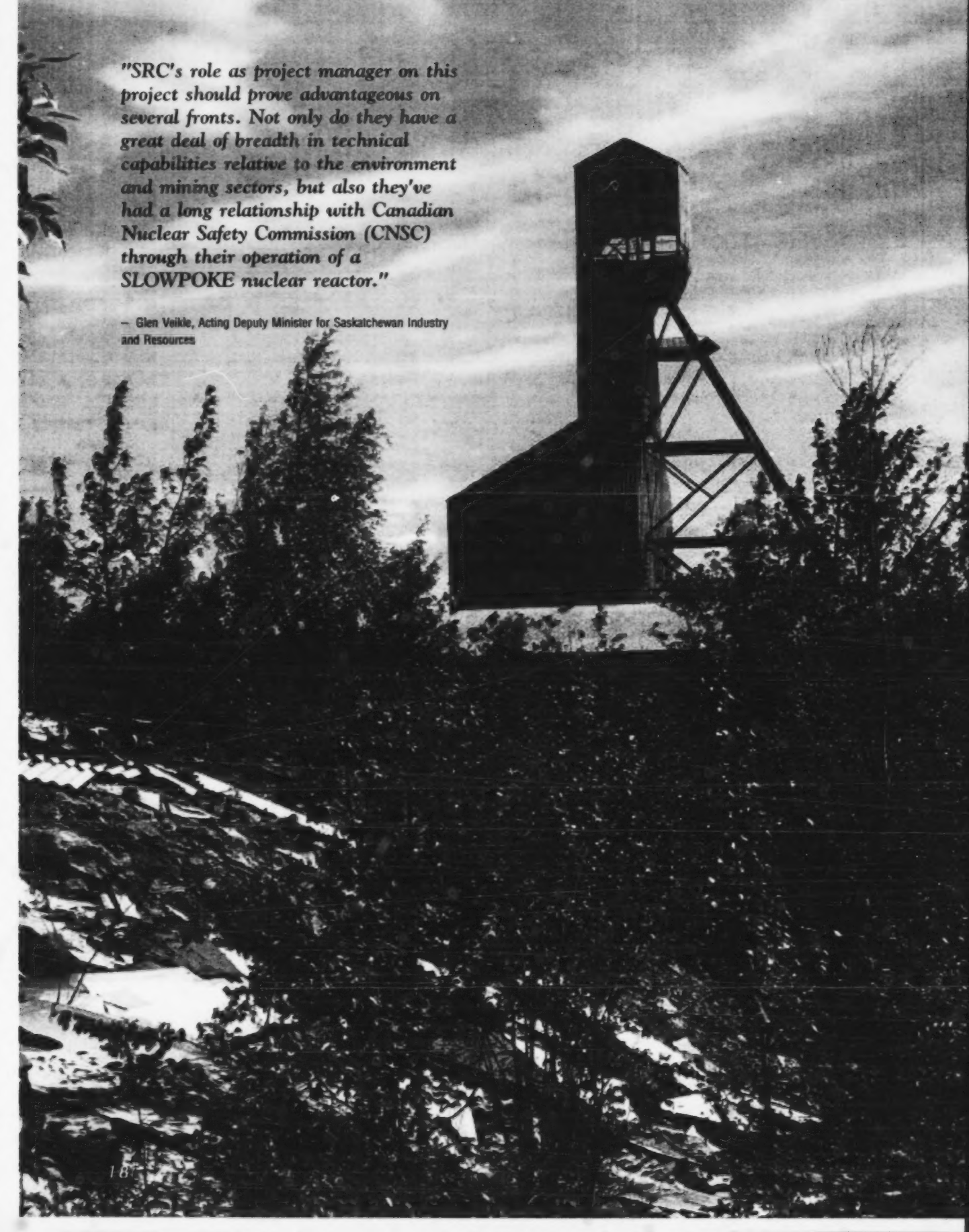


"SRC's role as project manager on this project should prove advantageous on several fronts. Not only do they have a great deal of breadth in technical capabilities relative to the environment and mining sectors, but also they've had a long relationship with Canadian Nuclear Safety Commission (CNSC) through their operation of a SLOWPOKE nuclear reactor."

– Glen Veikle, Acting Deputy Minister for Saskatchewan Industry and Resources

SRC to Lead Clea up of Northern Mine Sites

SRC will lead a $24.6 million cleanup of 37 abandoned mine sites in northern Saskatchewan. The project has been dubbed by SRC as the Cleanup of Abandoned Northern Sites, or CLEANS.

"These uranium mines from the 1950s and 60s are a legacy of the Cold War," according to SRC's project manager Bill Olsen. "Since the sites were abandoned, jurisdiction has been in question for several decades. Now the federal and provincial governments are stepping in to jointly fund the cleanup, with SRC designated as the project manager. We have carried out some public consultations and will be on the ground in the Uranium City area this spring, preparing to clean up the first 34 sites."

SRC has been involved in preliminary site assessment and planning for over 2 years.

Remediation will begin first on the smaller sites that do not require a license from the Canadian Nuclear Safety Commission (CNSC). Cleanup of the smaller sites will occur over six years.

Olsen explains that these smaller sites are comparable to garbage dumps. "There is a lot of old equipment and tanks lying around and openings in the ground that need to be sealed. It is more of a physical safety issue at these sites than anything else," says Olsen, who explains that it makes sense to tackle those sites first.

"Working on these smaller sites first helps to build capacity in the community. Having local people working on the project develops their skills, while we ramp up the processes and build experience for the larger and more complex work needed on the big sites we will tackle later."

The old Gunnar mine and mill, which is the largest site, will be the most challenging aspect of the project and requires CNSC licensing. The former mine and mill's facilities are in ruins and there are about 4 million tonnes of tailings not properly confined.

Remediation of the Gunnar site involves numerous assessments, including hydrogeology, flora and fauna, and ecosystems, so that all impacts from previous operations are handled. The Gunnar site cleanup is expected to be complete in 2015.

SRC applies its expertise to a wide variety of environmental concerns, from assessment and mitigation through adaptation and remediation. Projects like CLEANS help to keep Saskatchewan safe and sustainable.

Safe Water for First Nations Communities

Water quality has been a longstanding issue for many First Nations communities in Saskatchewan and across Canada. SRC is involved in a project with the Federation of Saskatchewan Indian Nations (FSIN) to increase technical and managerial resources in these communities—as well as environmental quality—to ensure that high-quality drinking water is available.

"The support and testing systems these communities rely on are sometimes inadequate," says Brenda Stanek, SRC's project leader, who is collaborating on the project with FSIN's project manager, Patrick Johnston. "In particular, there is a need to ensure that proper quality assurance and quality control testing procedures are in place, as well as data management systems that allow for effective monitoring of system performance."

The project has four main objectives:

- Documenting the water quality of communal water systems;
- Assessing potential health effects of water supply infrastructure, along with local concerns;

- Using the information to effect positive change; and,
- Increasing capacity of the water quality support and testing systems.

Steps in the project include:

- Assessing the Colilert labs used to test water samples for coliform bacteria and identifying steps required to improve lab performance;
- Testing water samples at SRC's analytical laboratories;
- Making improvements to quality assurance and control programs, selecting an appropriate data management system, and developing a water monitor training program; and,
- Analysing water quality data in conjunction with ecological surveys.

FSIN Second Vice-Chief Guy Lonechild explains that the project is a very important one: "Elders remind us that all things are inter-connected – animals, including humans, and nature. In nature, water provides life, but it is also contaminated by those it provides for. We need to be able to better understand how and what is contaminating our water. This way we can provide safe, clean water not only for human use but for all living things. That is why FSIN sees this baseline water sampling as an important beginning to understanding, and how it can be corrected."

The final stage of the project is to share what SRC has learned in the communities affected, says Stanek. "We will be meeting with all of the stakeholders to get their feedback and to map out the most effective ways to make use of the knowledge acquired during the project, to ensure the best possible water is available."

SRC applies its expertise to help ensure high standards of public and environmental health for people throughout Saskatchewan.

Preparing for More Intense and Larger Droughts

The record drought of 2001-2002—named the "Ada" drought—had devastating impacts on many sectors of society and posed considerable adaptation challenges. With most global climate change models predicting increased continental drying and risk of drought, Ada provides an analogue to future climate change stresses due to drought.

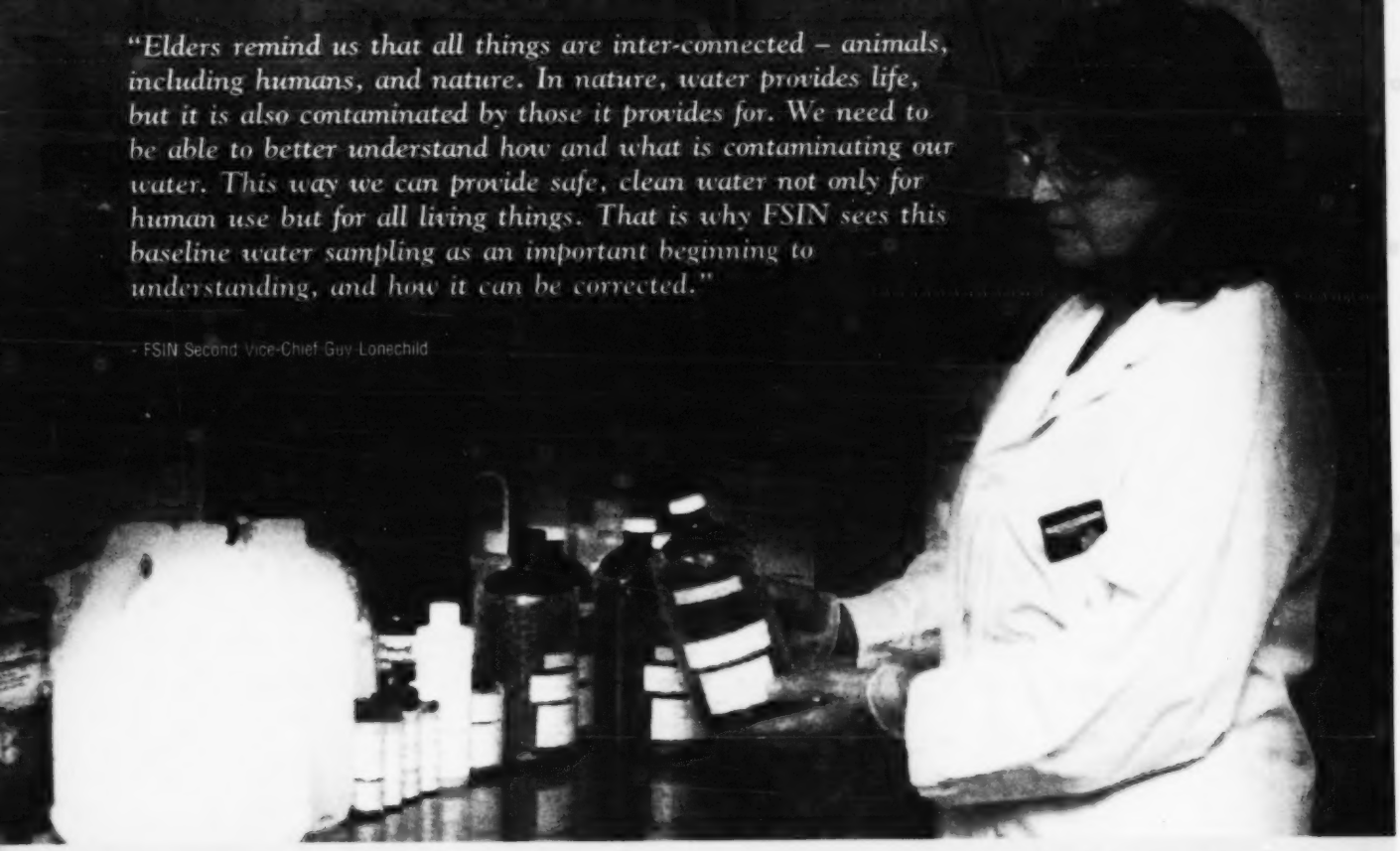
SRC's Ecosystems Business Unit is leading a project that assesses Ada to improve our understanding of current drought adaptation processes and options in Canadian agriculture.

"We can't stop droughts but we can improve the way we deal with them," says Senior Research Scientist Dr. Elaine Wheaton. "This project will use experience with Ada to provide an estimate of our current vulnerability, resilience and adaptive capacity across Canada. Our goal is to help agriculture and other sectors decrease their vulnerability to future droughts."

The research is producing information that fosters public awareness of drought and aids in the development of national and provincial climate change adaptation programs. It also helps to develop improved vulnerability and adaptation research methods and better models for cooperative inter-disciplinary and inter-institutional research.

"This project adds to the base of information needed for building future adaptation scenarios," says Wheaton. "We are involving a user group to facilitate integration and two-way communication with other agencies who deal with drought."

SRC is a leader in climate change research, helping people and industries in Saskatchewan and across Canada understand the issues and prepare for the future.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Solar Energy Helps Power Rural Theatre

When Meacham, Saskatchewan's Dancing Sky Theatre was chosen to produce a travelling show for Saskatchewan's Centennial, it wanted to see if the sun could power the show. With the support of SRC's Office of Energy Conservation (OEC), their "solar vision" came true.

"The show we created was about Saskatchewan's environment," says theatre Artistic Director, Angus Ferguson. "It seemed right that the environment we were celebrating would provide the power for the show. Using solar power in our trailer would also allow us to perform anywhere. Plus, the solar system would be completely silent."

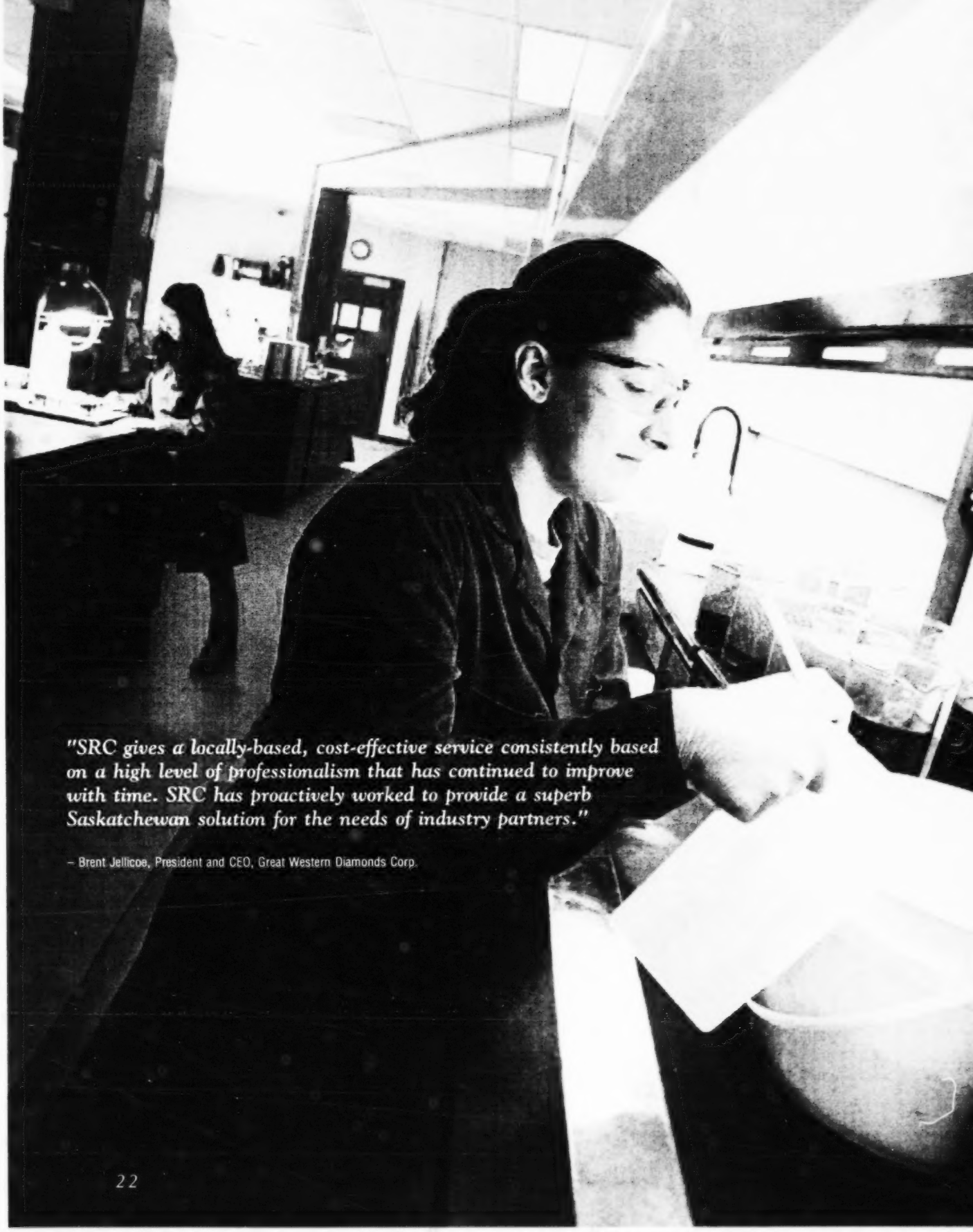
OEC partially funded the system, which provided a rolling demonstration for alternative energy during 56 performances that took place throughout Saskatchewan. The solar equipment has now been reinstalled at the theatre's permanent facility in Meacham. It provides sufficient electricity for the theatre's office and runs the sound system during performances. It will result in carbon dioxide emissions reductions of more than 1.6 tonnes per year.

OEC has also worked extensively to support efforts by municipal governments to conserve energy.

"The Municipal Energy Efficiency Program we operate with the Saskatchewan Association of Rural Municipalities and the Saskatchewan Association of Urban Municipalities helps communities save money," says OEC Director Grant McVicar. "We provide inventories that cover a variety of energy uses in municipal facilities. Municipalities then use the information to undertake upgrades that reduce energy bills and lower greenhouse gas emissions."

OEC also developed a website and online database that assists municipalities in the development of energy conscious facility planning.

SRC is helping Saskatchewan communities lower their energy use and, by extension, protect the environment by reducing greenhouse gas emissions.



"SRC gives a locally-based, cost-effective service consistently based on a high level of professionalism that has continued to improve with time. SRC has proactively worked to provide a superb Saskatchewan solution for the needs of industry partners."

– Brent Jellicoe, President and CEO, Great Western Diamonds Corp.

Mining and Minerals

Reorganization, Expansion Responds to Mining Boom

With the development of SRC's 2007-2012 strategic plan, the Mining and Minerals Division has been reorganized and expanded to keep pace with the booming mining industry in Saskatchewan.

"To meet the rising demand for our services, we are working to provide seamless support for industry," says Paul Labbé, SRC's Vice-President of the Minning and Minerals Division. "We now provide a full range of services for the mining and minerals business cycle in one integrated division, including exploration, mining, and processing analysis. Our newly completed reorganization allows us to pool resources to be more effective and to respond to all mining sectors."

The division now consists of four business units—Mineral Exploration, Mineral Extraction, Mineral Processing, and Geoanalytical Laboratories. Geoanalytical, in particular, has seen a major expansion in recent years.

"SRC's Geoanalytical Laboratories achieved ISO certification for diamonds in 2004 and we expect to be certified for uranium by mid-2007," reports Labbé. "ISO certification is something not many mining labs have achieved. There are only two or three labs certified for diamonds worldwide at this level. Achieving high-level certification in uranium will make us unique in the industry."

This division has 125 dedicated employees, but can draw on other SRC scientists, engineers, technicians and support staff if a particular project requires extra resources.

SRC's Mining and Minerals Division plays a critical role in Saskatchewan's mining sector, helping it to be one of the most productive in Canada.

Diamond Services Double in Size, Capacity

SRC's Geoanalytical Laboratories underwent a $3.2 million renovation this spring to include a 1375 m^2 state-of-the-art diamond facility.

"The expansion effectively doubled operations" says Mike McCubbing, supervisor of the lab. "It is one of the largest micro diamond geo-analysis lab in the world and our expansion facilitated entry into the macro-diamond market."

The Geoanalytical Laboratories' services include accepting drill core and/or bulk samples for analysis so that mining clients can better assess whether further exploration expenditures are justified. Those samples, which may contain diamonds, typically include a large portion of host rock. Researchers extract potentially valuable minerals from the sample, and the host rock can then be ignored.

The more valuable portion of the initial sample undergoes further processing before it is analysed for quality and size. Diamonds larger than 75 micrometres are known as micro diamonds while larger ones are called macro diamonds. After processing and analysis is complete, SRC provides a client report.

"We have built a reputation of outstanding quality and performance in our geoanalytical work," says McCubbing, adding that SRC's diamond facilities also contain very high levels of security.

Geoanalytical's capacity has increased every year for three consecutive years, allowing it to offer faster turn-around times for the mining industry. The current expansion increases the number of kilns from 44 to 80, allowing the lab to process up to 2 tonnes of samples per week by using a caustic fusion process. Through the same expansion, SRC's

diamond observation room tripled in size. A new dense media separation (DMS) plant is currently being added to our operations to provide additional processing capacity.

Like other areas at SRC, Geoanalytical Laboratories keeps environmental issues in mind while optimizing business operations. For example, it introduced a new program to recycle sodium hydroxide, a chemical used to process samples.

"We use about three tonnes of this chemical, which is a very strong base, every day," says McCubbing. "It is highly corrosive."

McCubbing explains that the lab can't reuse that chemical and has been shipping it to companies that use it to neutralize acids. However, with increased operations, there may soon not be enough end users who can take the sodium hydroxide. To overcome that issue, the lab arranged for a supplier to take all of it for recycling and distribution.

SRC's Geoanalytical Laboratories continues to help develop Saskatchewan's diamond industry, which, in turn, may significantly increase the province's economic base.

SRC 3D Virtual Reality Centre™ Celebrates its First Year of Operation

In October, the SRC 3D Virtual Reality Centre™ completed its first full year of operation. The three-dimensional (3D) virtual reality research and modelling facility now offers even more services for the mineral exploration and mining industry, than when it first opened.

The centre's first year of performance proved successful and it is expected that the centre's new additions, that includes the addition of a third wall and a smart board that can be connected to any one of the facility's walls, will bring added value to clients. The additions allow clients to add digital interpretation to what they see on screen and to do screen captures.

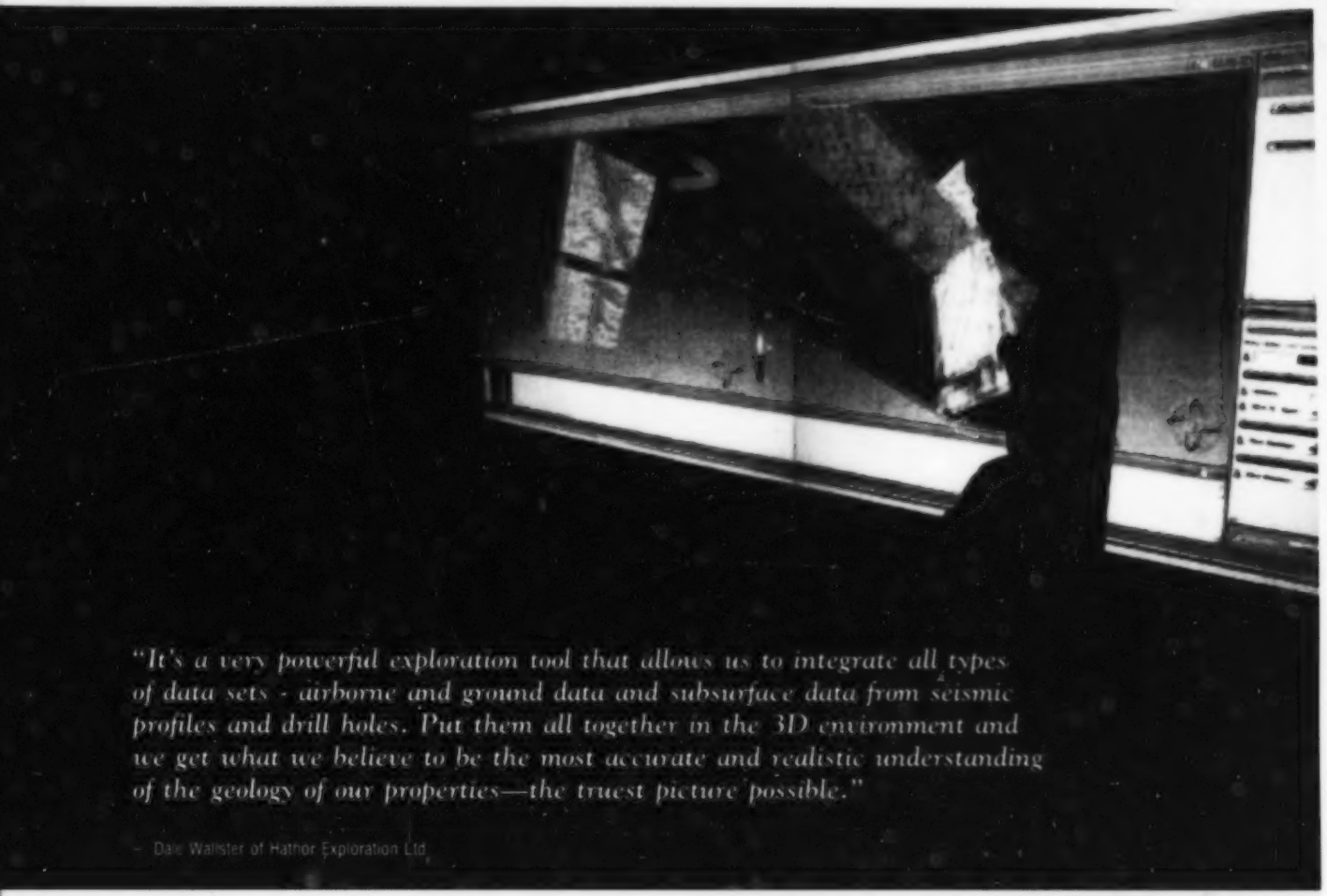
Researchers use the centre to build 3D visual models from customer data sets by using commercial 3D rendering software packages. The facility, which complements applied exploration techniques, has numerous applications. Those include: helping to decipher complex phenomena leading to mineralization, identifying vector tools for locating new mineral deposits, and characterizing the geometry of deposits.

Researchers and clients can use the Centre to view 3D models of an ore body, observe that ore body from different perspectives, and zoom in and out to find details in the model. Clients use the facility when conducting exploration on regional, district and deposit scales.

Dale Wallster of Hathor Exploration Ltd., a junior resource exploration company based in Vancouver, says Hathor has used the virtual reality facility extensively this year. "It's a very powerful exploration tool that allows us to integrate all types of data sets - airborne and ground data and subsurface data from seismic profiles and drill holes. Put them all together in the 3D environment and we get what we believe to be the most accurate and realistic understanding of the geology of our properties—the truest picture possible."

Upgrades at the facility also relate to both hardware and software, including software that has the potential to assist in areas such as mine design, geo-environmental, and synchrotron applications.

The SRC 3D Virtual Reality Centre™ helps keep the mineral exploration and mining industry at the forefront of advanced technology that can help improve their business operations.



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– Dale Wallster of Hathor Exploration Ltd.

Capacity in Uranium Sample Analysis Increases

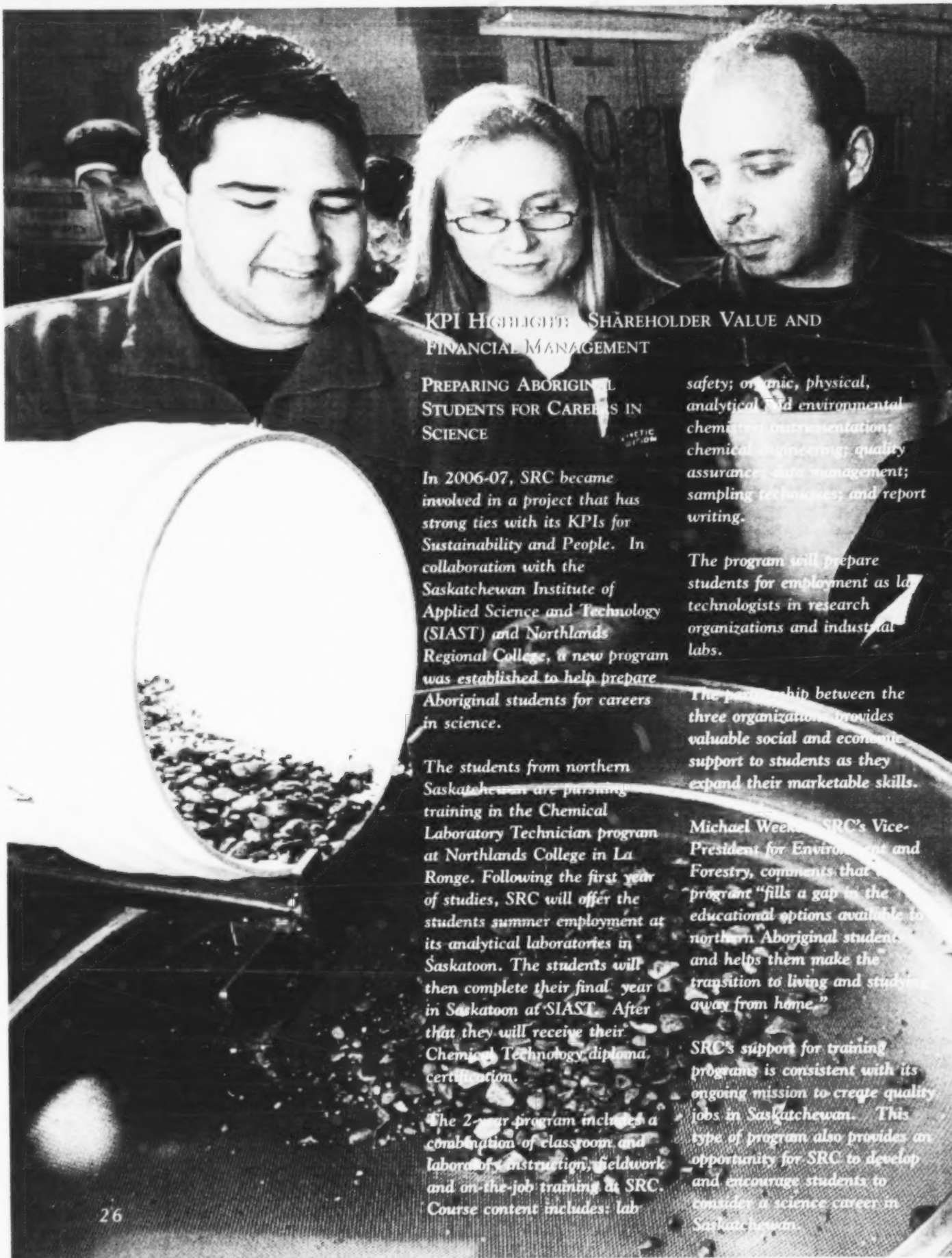
Growth in uranium exploration is exceptionally strong in Saskatchewan. To respond to increased client demands accompanying this growth, SRC doubled its uranium analytical capacity in recent years and is planning to further increase that capacity.

Previous expansions included investing in new uranium sample preparation and analysis equipment that identifies trace chemicals and minerals of interest to clients. SRC plans to further upgrade its inductively coupled plasma (ICP) atomic emission spectroscopy capacity to increase sample throughput.

SRC uses advanced computer modelling, field and laboratory analysis, and synchrotron studies, coupled with its excellent understanding of the geology of the Athabasca Basin, to assist companies planning exploration activities. A new X-ray diffraction (XRD) spectrometer has also been added in the Mineral Exploration Business Unit. That system provides special hardware and software capabilities that are necessary in identifying minerals and clays in field samples taken by clients.

SRC provides world-class support for the uranium industry, not only in Saskatchewan but elsewhere in Canada and beyond, including France, Peru, Australia and the USA. SRC's researchers also collaborate with geoscientists in several countries to develop new geo-modelling techniques and to use synchrotron studies that further understanding of uranium formations.

Uranium remains an important driver of Saskatchewan's economy and SRC is proud to support that industry.



KPI Highlight: Shareholder Value and Financial Management

Preparing Aboriginal Students for Careers in Science

In 2006-07, SRC became involved in a project that has strong ties with its KPIs for Sustainability and People. In collaboration with the Saskatchewan Institute of Applied Science and Technology (SIAST) and Northlands Regional College, a new program was established to help prepare Aboriginal students for careers in science.

The students from northern Saskatchewan are pursuing training in the Chemical Laboratory Technician program at Northlands College in La Ronge. Following the first year of studies, SRC will offer the students summer employment at its analytical laboratories in Saskatoon. The students will then complete their final year in Saskatoon at SIAST. After that they will receive their Chemical Technology diploma, certification.

The 2-year program includes a combination of classroom and laboratory instruction, fieldwork and on-the-job training at SRC. Course content includes: lab safety; organic, physical, analytical and environmental chemistry; instrumentation; chemical engineering; quality assurance; data management; sampling techniques; and report writing.

The program will prepare students for employment as lab technologists in research organizations and industrial labs.

The partnership between the three organizations provides valuable social and economic support to students as they expand their marketable skills.

Michael Weeks, SRC's Vice-President for Environment and Forestry, comments that the program "fills a gap in the educational options available to northern Aboriginal students and helps them make the transition to living and studying away from home."

SRC's support for training programs is consistent with its ongoing mission to create quality jobs in Saskatchewan. This type of program also provides an opportunity for SRC to develop and encourage students to consider a science career in Saskatchewan.

Corporate Performance

SRC is celebrating 60 years of providing Smart Science Solutions™. Over the years, the organization has gone through many evolutions as it has moved from being a strictly granting agency in the 1940s to a market-driven, science-based technology solutions provider in 2007.

Through this evolution, it has become apparent that the organization's success is based on numerous factors. Therefore, in recent years, SRC has developed and introduced a series of Key Performance Indicators (KPIs) to help measure SRC's performance. These indicators are intended to reflect the critical success factors that are essential for delivering on SRC's mission.

In total, SRC has identified eight key areas to monitor for performance.

KPI #1. Shareholder Value

As a Treasury Board Crown Corporation, SRC is responsible to its owner, the province of Saskatchewan, and hence the people of Saskatchewan. To ensure that SRC is creating value for its stakeholders, this objective is defined by SRC's mission statement: To strengthen the Saskatchewan economy with quality jobs and a secure environment through the responsible application of science and technology. Measurement of this objective includes assessing SRC's economic impact in Saskatchewan including jobs that were created or maintained. It also encompasses environmental and/or social impacts such as energy conservation, reduced greenhouse gas emissions, improved air quality, and safety.

KPI #2. Financial Management

SRC must operate in a fiscally responsible manner in order to stay in business. There are three key objectives associated with this KPI. The organization aims to provide a positive financial return. We strive to utilize the provincial investment – approximately 23 per cent of our total revenues – in an effective and appropriate fashion. We also purchase appropriate capital assets each year to ensure we are maintaining our leading-edge position.

KPI #3. Client

SRC delivers a variety of contract services to its client base. Our reputation as an independent, quality service provider is important to our clients and therefore of utmost importance to the organization. The objective of KPI #3 is to understand and deliver quality results that SRC's clients value.

KPI #4. Growth

In order to ensure we are meeting the needs of the marketplace and helping Saskatchewan to be globally competitive, SRC has identified growth as a key factor to support this. The objective of KPI #4 is to grow SRC's revenue base in order to achieve and maintain critical mass in each business area, expand our service offerings, and deliver additional impacts under shareholder value.

KPI #5. People

SRC's most important resource is its team of dedicated employees. It is our employees who keep the organization moving forward through their varied expertise, knowledge and skills. The objective of KPI #5 is to develop, inspire and motivate SRC's employees. We do this by supporting professional development activities, ensuring a safe workplace, and delivering progressive compensation systems.

KPI #6. Sustainable Development

SRC recognizes the importance of conducting business in a socially and environmentally responsible manner and made this the focus of KPI #6. This focus is not only encouraged through SRC's internal functions, but extends to its projects.

KPI #7. Technical Excellence

As Saskatchewan's leading technology organization, it is vital to include technical excellence as a key measure of success. The objective of KPI #7 is to have SRC achieve, and receive recognition for, technical excellence in terms of the work that we do and the employees that we develop.

KPI #8. Internal Process Excellence

The objective of KPI #8 is to have SRC achieve and maintain excellence in its internal processes, including operational efficiency, internal management and leadership, visibility and recognition, risk management, and quality management. To support this KPI, SRC has developed several strategies to provide a framework and vision for relative areas.

KPI Highlight: People and Sustainable Development

New Enterprise Risk Management Program Launched at SRC

As one of the steps for achieving Internal Process Excellence, in 2006-07 SRC launched its Enterprise Risk Management (ERM) program. SRC chose to implement ERM as a good business practice given the benefits and value this type of program would bring to the organization.

"Risk management is not a new concept to our organization," said Crystal Smudy, SRC's Chief Financial Officer and the champion for the ERM program at SRC. "It doesn't replace our existing efforts, but rather provides a formalized and structured process around managing the business risks and opportunities associated with meeting SRC's goals and objectives."

One of the risk management tools which SRC has chosen to use for its ERM program is the ORCA assessment tool. ORCA stands for the four steps associated with this tool: 1) Objectives, 2) Risks, 3) Controls and 4) Actions. This assessment tool provides a framework that encourages the users to consider what it is they are trying to achieve, what the various risks are, what options there are for mitigation, and what actions they should take in light of this information.

Shortly after the ERM program was launched with SRC's business unit managers, the ORCA model was put into practice by one of SRC's Teams.

"We were about to launch a project for which the team had many concerns," said Wanda Nyirfa, then Acting Vice-President of SRC's Agriculture, Biotechnology and Food Division. "We sat down together and put all of the concerns and risks out on the table. We then talked through if, and how, we could manage those risks, and ultimately made changes to the team's structure and processes. At the start of the ORCA assessment there was a minimal comfort level with the team to proceed on the project. Once we had completed the ORCA assessment everyone was up to the task." It was several months ago that the team did this assessment, and ultimately they successfully completed the project.

"The ORCA tool is a basic, easy to remember framework that can be used in a wide variety of situations," says Smudy. "We continue to roll-out this program on a division by division basis, and it's very rewarding to know that it's being used and bringing a great deal of value to the organization."

SRC's launch of an Enterprise Risk Management program is a signal of the organization's commitment to achieve internal process excellence.

CORPORATE GOVERNANCE

AUTHORITY

The Saskatchewan Research Council (SRC) is a Treasury Board Crown Corporation governed by *The Research Council Act*. Within this framework, the Board formulates policy and delegates the responsibility and authority for the ongoing management of the corporation to the President and CEO.

BOARD RESPONSIBILITIES

The Board ensures that the activities of the corporation are carried out under the terms of *The Research Council Act*. The Board oversees the stewardship of the corporation and has responsibility for strategic planning and monitoring financial and business performance. The Board ensures that management has systems in place to identify and manage the principal risks of the corporation's business.

BOARD COMPOSITION AND COMPENSATION

The SRC Board is comprised of six members with a diverse combination of knowledge and expertise including scientific, legal, management, financial and public relations skills. The members represent a cross-section of SRC's stakeholder community including individuals from business, industry, the public sector and academic institutions.

Five directors, including the Chair, are independent of SRC management. The one related director is the President and CEO of the corporation.

Board members (except for members who are government employees) receive an honorarium for meetings attended. The level of compensation is established by Treasury Board. Members are allowed travel and associated expenses at SRC approved rates.

THE BOARD AND MANAGEMENT

The Board focuses on the strategic leadership of the corporation and does not become involved in day-to-day management, but delegates and entrusts operational decisions to senior management, holding senior management accountable for the company's performance, its long-term viability and the achievement of its objectives.

COMMITTEES

The Board of Directors has established the following committees to address specific areas of Board responsibility:

Audit/Finance Committee

The Audit/Finance Committee is responsible for monitoring, advising and making recommendations to the Board regarding all aspects of financial planning and the financial management of the organization. The Audit/Finance Committee acts as the communication link between the Board of Directors and the Provincial Auditor.

Governance Committee

The Governance Committee is responsible for monitoring, advising and making recommendations to the Board regarding the governance strategy of the corporation, assessing and evaluating Board and CEO performance, administering the Board-CEO relationship and monitoring and assessing risk within the corporation.

Report of Management
Year Ended March 31, 2007

The accompanying financial statements are the responsibility of the management of the Saskatchewan Research Council. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit/Finance Committee, which is composed of three non-management directors and one management director. The Committee meets periodically with management to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

The Provincial Auditor of Saskatchewan has audited the Council's financial statements in accordance with Canadian generally accepted auditing standards and his report follows.

Laurier Schramm
President and CEO

Crystal Smudy, CA
Chief Financial Officer

Consolidated Financial Statements
Year Ended March 31, 2007

Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan.

I have audited the consolidated balance sheet of the Saskatchewan Research Council as at March 31, 2007 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. The Council's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements, present fairly, in all material respects, the financial position of the Council as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 11, 2007

Fred Wendel, CMA, CA
Provincial Auditor

CONSOLIDATED BALANCE SHEET

As At March 31

(Thousands of dollars)

STATEMENT 1

	2007	2006
ASSETS		
Current assets:		
Cash (Note 6)	$ –	$ 2,963
Accounts receivable	10,339	6,131
Prepaid expenses	802	586
	11,141	9,680
Non-current assets:		
Accrued benefit asset (Note 3)	88	140
Restricted investment (Note 4)	691	649
Trust investment (Note 9)	1,049	767
Property, plant and equipment (Note 5)	13,395	11,738
	$ 26,364	$ 22,974
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities:		
Bank indebtedness (Note 6)	$ 926	$ –
Accounts payable	3,343	4,055
Unearned revenue	3,030	975
Deferred revenue (Note 7)	989	1,042
Salaries and wages payable	1,288	1,029
Vacation payable	237	186
	9,813	7,287
Non-current liabilities:		
Sick leave benefits payable	226	255
Asset retirement obligation (Note 9)	1,733	1,643
Deferred revenue (Note 7)	2,503	3,955
	14,275	13,140
Province's equity:		
Contributed surplus	922	922
Retained earnings - unappropriated (Statement 2)	10,476	8,263
Retained earnings - appropriated (Statement 2)	691	649
	12,089	9,834
	$ 26,364	$ 22,974

(See accompanying notes to the financial statements)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year Ended March 31

(Thousands of dollars)

STATEMENT 2

	2007 (Note 14)	2006 (Note 14)
Revenue:		
Contracts	$ 26,199	$ 22,735
Grant - General Revenue Fund	8,659	8,579
Grant - Fermentation Facility (Note 7)	654	399
Grant - Capital Enhancements (Note 7)	603	206
Interest revenue	236	164
Change in restricted investment (Note 4)	42	57
	36,393	32,140
Expenses:		
Salaries and benefits	15,854	14,147
Supplies and services	9,641	8,155
Accommodation charges	4,715	4,749
Amortization of property, plant and equipment	2,619	2,203
Amortization of Fermentation Facility assets (Note 7)	654	399
Amortization of Capital Enhancements funded assets (Note 7)	603	206
	34,086	29,859
Net income from operations	2,307	2,281
Defined benefit pension plan (expense) revenue (Note 3)	(52)	66
Net income before extraordinary item	2,255	2,347
Extraordinary item (Note 8)	–	750
Net income	2,255	3,097
Retained earnings - unappropriated, beginning of year	8,263	5,223
Change in appropriated amount during year (Note 4)	(42)	(57)
Retained earnings - unappropriated, end of year to Statement 1	$ 10,476	$ 8,263
Retained earnings - appropriated, beginning of year	$ 649	$ 592
Change in appropriated amount during year (Note 4)	42	57
Retained earnings - appropriated, end of year to Statement 1	$ 691	$ 649

(See accompanying notes to the financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended March 31

(Thousands of dollars)

STATEMENT 3

	2007	2006
Cash flows from (used in) operating activities:		
Cash receipts from contracts	$ 23,970	$ 21,932
Cash receipts from General Revenue Fund	8,446	12,390
Cash paid to suppliers and employees	(30,761)	(24,867)
Interest received	186	140
Cash flows from operating activities	1,841	9,595
Cash flows from (used in) investing:		
Purchase of trust investment (Note 15)	(260)	(260)
Purchase of property, plant and equipment	(5,511)	(7,458)
Proceeds from sale of restricted investment	41	–
Cash flows used in investing activities	(5,730)	(7,718)
Net (decrease) increase in cash position	(3,889)	1,877
Cash, beginning of year	2,963	1,086
(Bank indebtedness) Cash, end of year	$ (926)	$ 2,963

(See accompanying notes to the financial statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

1. Status of Saskatchewan Research Council

Saskatchewan Research Council ("the Council") was established pursuant to Section 3 of *The Research Council Act* for the purpose of research and investigation in the fields of the physical sciences, pure and applied, as they affect the economy of the Province of Saskatchewan. The Council is a body corporate which receives monies appropriated by the Legislature for these purposes. It is also empowered to conduct research under contract for others and to receive financial assistance pursuant to agreements with other similar agencies.

2. Summary of Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting principles are considered to be significant:

a) Consolidation Principles and Basis of Presentation

The accounts of TecMark International Commercialization Inc., a wholly owned subsidiary of the Saskatchewan Research Council, are consolidated in these financial statements.

The Council's proportionate share of the assets, liabilities, revenues, expenses and cash flows of a joint venture with Bova-Can Parentage Testing Inc. are included in these financial statements.

b) Accrual Basis

The financial statements are prepared on the accrual basis of accounting.

c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary of Accounting Policies (Continued)

d) Revenue Recognition

Revenue from contract work is recognized on the percentage-of-completion method, which recognizes revenue as a contract progresses.

Unbilled revenues are accrued to the year-end for these contracts, while pre-billed revenues received are classified as unearned revenue.

Grants from the General Revenue Fund are unrestricted in nature and recognized as they are received or receivable. An exception to this is the Capital Enhancements Revenue which is recognized at the same rate as the related assets are put in use and amortized.

Other contributions that are restricted for a specified use are deferred and are recognized as revenue when the related expenses are incurred.

Fermentation Facility revenue is recognized at the same rate as the related assets are put in use and amortized.

Donations revenue is recognized upon receipt based on the value of the assets received.

e) Property, Plant and Equipment

The assets of the Council are initially recorded at cost, including labour, material and overhead for self-constructed assets.

Amortization of property, plant and equipment is provided over the estimated useful lives of the assets on the following basis:

i) Sum-of-the-years'-digits method	
Buildings	20 years
Equipment	5-10 years
ii) Declining balance method	
Automotive	33⅓%
iii) Straight-line	
Goodwill	5 years
Leaseholds	2 - 12 years
Fermentation and GenServe Equipment	10 years

2. Summary of Accounting Policies (Continued)

f) Accrued Vacation Credits

The costs associated with vacation credits are recognized when the vacation entitlements are earned. The value of credits earned to the year-end but not taken is reflected as a liability.

g) Sick Leave Benefits

The Council allowed employees to accumulate 10% of their unused sick leave credits earned to March 31, 1998. The costs associated with these sick leave benefits were recognized when the benefits were earned.

The practice of paying out sick leave credits ceased effective April 1, 1998. Upon termination of employment the Council pays out 10% of the accumulated unused sick leave credits to March 31, 1998, based on the wage rate in effect at March 31, 1998.

h) Restricted Investment

The investment is comprised of deposits in units in a balanced mutual fund managed by a professional investment manager.

The balanced mutual fund has no fixed interest rate, and the return is based on the performance of the fund. Additional units in the mutual fund are acquired when distributions are made by the fund. Cash dividends are not paid by the fund; however, investors can realize changes in the underlying unit values by redeeming units.

Units in the mutual fund are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the investments in the fund portfolio divided by the total number of outstanding units in that fund. The adjustment necessary to record units at their net asset value at the year-end is shown as a change in restricted investment on the consolidated statement of operations and retained earnings.

i) Trust Investment

The trust investment is comprised of guaranteed investment certificates held by a trust company. The investment is recorded at cost which approximates fair market value.

j) Asset Retirement Obligation (ARO)

The fair value of legal obligations to retire long-lived assets is recorded as an ARO with a corresponding increase in the carrying amount of the related assets. The recorded ARO increases over time through accretion charges to earnings. The capitalized assets are amortized to income consistent with the amortization of the related assets.

3. Accrued Benefit Asset - Pension Plan

The Council maintains a pension plan for its employees. Until December 31, 1990, it was a defined benefit plan. Effective January 1, 1991, the plan was changed to a defined contribution plan. The changes do not affect existing pensioners who will continue to receive benefits as granted. The latest actuarial valuation was performed as at January 1, 2007. The pension plan has been valued using management's best estimates.

The defined contribution plan had a market value of $19,847,000 (2005 - $19,121,000) at December 31, 2006. The value of the defined contribution plan assets and liabilities has not been extrapolated from December 31 to March 31.

By design, the liabilities will always equal the assets of a defined contribution plan.

The defined benefit asset and obligation have been extrapolated from the January 1 actuarial valuation to March 31. The financial position of the defined benefit plan is as follows:

	2007 (000's)	2006 (000's)
Defined benefit asset at market value, January 1	$ 2,592	$ 2,621
Net change in asset value	(44)	28
Asset value, extrapolated to March 31	2,548	2,649
Defined benefit obligation at January 1	2,314	2,384
Net change in obligation	146	125
Obligation, extrapolated to March 31	2,460	2,509
Accrued benefit asset, March 31	$ 88	$ 140

Upon termination of the Plan, any accrued benefit asset of the Pension Fund remaining, after discharging all liabilities, shall belong to the Council. The accrued benefit asset may be distributed in a manner to be determined by the Council, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act (Canada)* and the regulations thereunder.

The defined benefit pension plan expense of $52,000 (2006 - $66,000 revenue) is the year over year change in the accrued benefit asset and obligation. The defined contribution pension plan expense (employer contributions) for the year was $687,000 (2006 - $600,000). The benefits paid from the defined benefit pension plan during the year were $329,000 (2006 - $324,000). Effective January 1, 2003 the Council is not being reimbursed for administrative costs incurred by the pension plan.

4. Restricted Investment

Restricted investment represents the Technology in Action Fund ("Fund"), which was established by the Council in 1994 when Mr. Ian Wahn made a gift to the Council, an agent of the Crown. The Fund was established to help the people of Saskatchewan develop their province as a highly skilled, fair, desirable and compassionate society with a secure environment through research, development and the transfer of innovative scientific and technological solutions, applications and services.

The Council received a binding ruling from the Canada Revenue Agency that accepts this as a "Gift to the Crown".

The Council maintains a separate account for the capital contributions and all investment income earned.

	2007 (000's)	Change (000's)	2006 (000's)
Capital contributions	$ 504	$ –	$ 504
Investment earnings	341	65	276
Technology grants, fund expenses	(154)	(23)	(131)
Total	$ 691	$ 42	$ 649

The investment earnings include the actual earnings of the investment and the year over year change in the market value of the assets. During the year, the Council redeemed $40,720 (2006 - nil) from the fund to offset costs paid by the Council for the Fund's activities incurred over the past three years.

5. Property, Plant and Equipment

	2007			2006
	Cost (000's)	Accumulated Amortization (000's)	Net Book Value (000's)	Net Book Value (000's)
Buildings	$ 601	$ 473	$ 128	$ 171
Leaseholds	7,887	4,437	3,450	1,679
Equipment	25,429	16,591	8,838	8,251
Automotive	324	220	104	82
Slowpoke Asset	487	326	161	184
Fermentation Facility	3,370	3,027	343	686
GenServe Equipment	562	450	112	169
Fermentation Upgrade	303	55	248	505
Land	11	–	11	11
	$ 38,974	$ 25,579	$ 13,395	$ 11,738

Included in the cost and net book value of equipment, is $2,953,000 (2006 - $3,224,000) of assets that were not amortized because they were not ready for use. Of this amount $220,000 (2006 - $2,537,000) relates to the Grant – Capital Enhancements funded assets, nil (2006 - $505,000) relates to the Fermentation Upgrade and the balance of $2,733,000 (2006 - $182,000) is for standard equipment purchases and leasehold improvements.

6. Bank Indebtedness

The Council was authorized by the Minister of Finance to establish a line of credit not to exceed $5,100,000. There is an assignment of the accounts receivable as collateral for bank indebtedness. Interest is charged on the line of credit at the Bank of Montreal prime rate.

7. Deferred Revenue

The Council received contributions for certain property, plant and equipment, which it records as deferred revenue until such time as the related assets are put in use and amortized. Revenue is recognized based on the amortization of the related assets.

a) Fermentation Facility

The Fermentation Facility is comprised of GenServe Equipment, Fermentation Equipment and the Fermentation Upgrade. The GenServe Equipment and Fermentation Equipment were funded by the Agri-Food Innovation Fund (AFIF). The Fermentation Upgrade was funded under the Western Economic Partnership Agreement by Saskatchewan Industry and Resources (SIR) and Western Diversification.

b) Capital Enhancements

The Council received specific funding to replace aging equipment and acquire enhanced equipment from the Province.

	2007 (000's)	2006 (000's)
Current Portion		
GenServe	$ 56	$ 56
Fermentation Equipment	344	343
Fermentation Upgrade	50	–
Capital Enhancements	539	643
	989	1,042
Long Term Portion		
GenServe	56	113
Fermentation Equipment	–	344
Fermentation Upgrade	199	751
Capital Enhancements	2,248	2,747
	2,503	3,955
Total Deferred Revenue	$ 3,492	$ 4,997

During the year, the Council recognized the following amounts as revenue based on the amortization of the related property, plant and equipment. The Council decided to discontinue the Fermentation Upgrade during the year and repaid $248,000 of funding to SIR.

7. Deferred Revenue (continued)

	2007 (000's)	2006 (000's)
Fermentation Facility		
GenServe	$ 56	$ 56
Fermentation Equipment	343	343
Fermentation Upgrade	255	–
	$ 654	$ 399
Amortization of Capital Enhancements	$ 603	$ 206

8. Extraordinary Item

In 2006, the Council received a contribution of equipment from the Petroleum Technology Research Centre (PTRC). The value of the equipment is recorded at the cost incurred by PTRC. The equipment received is a scaled, high-pressure physical model that can simulate oilfield reservoir conditions.

9. Asset Retirement Obligation (ARO)

The Canadian Nuclear Safety Commission's (CNSC) licensing conditions require that SLOWPOKE reactor owners have in place a decommissioning plan and a financial plan to cover the associated costs.

The fair value of legal obligations to retire the SLOWPOKE reactor is recorded as an ARO with a corresponding increase in the carrying amount of the related assets. The recorded ARO increases over time through accretion charges to earnings. The capitalized assets are depreciated to income consistent with the depreciation of the related assets.

The determination of the ARO is based on the current estimated costs of decommissioning. The obligation at year-end is $1,733,000 (2006 - $1,643,000). In 2007 there was no increase in cost estimates (2006 - $133,000). The discount rate used to value the obligation in 2007 was 5.25% (2006 - 5.25%). The eventual decommissioning is estimated to occur in 2015 and will require eighteen months to complete.

At March 31, 2007 the Council has invested $1,049,000 (2006 - $767,000) in a legal trust for purpose of settling the ARO. The terms of the trust agreement require the Council to contribute annually to the trust account over the next three years until the balance equals the current estimated decommissioning costs. The funds cannot be used for any purpose without prior approval of CNSC.

10. TecMark Inc.

TecMark International Commercialization Inc. ("TecMark") was incorporated under *The Business Corporations Act (Saskatchewan)* on October 9, 1996, as a wholly owned subsidiary of the Council. The purpose of the Corporation is to assist in the commercialization of technology for inventors, entrepreneurs and partner institutions in the Province of Saskatchewan.

Supplies and services includes $51,021 (2006 - $80,560) in connection with projects undertaken by TecMark.

11. Office of Energy Conservation

The Office of Energy Conservation (OEC) is a part of the Council. It is headed by the Director of OEC who is an employee of the Council. The mandate of the OEC is to develop and implement cost effective energy conservation initiatives including public information demonstrations of energy conservation measures and to encourage voluntary action by public and industry.

The OEC is guided by a Steering Committee that is comprised of representatives from but not limited to Saskatchewan Power Corporation, SaskEnergy Incorporated, Crown Investments Corporation of Saskatchewan, Department of Industry and Resources, and Department of Environment. During the year the OEC earned revenue of $1,094,000 (2006 - $1,125,000) and incurred expenses of $1,094,000 (2006 - $1,125,000).

12. Joint Venture

Effective February 1, 1997, the Council entered into a 50 percent ownership joint venture with Bova-Can Parentage Testing Inc. The agreement was renewed June 1, 2006 for one additional year. The agreement provides Bova-Can Laboratories with access to all animal lists and history, and the genotyping market. The agreement also provides a mechanism for the distribution of the assets and liabilities of the joint venture upon termination of the agreement.

The Council's pro-rata share of its interest in the joint venture is as follows:

	2007 (000's)	2006 (000's)
Current Assets	$ 305	$ 217
Long-term Assets	13	12
Current Liabilities	33	28
Long-term Liabilities	2	4
Revenue	477	436
Expenses	392	426
Net Income	85	10
Cash flows resulting from (used in) operating activities	(85)	(25)
Cash flows resulting from (used in) investing activities	(7)	(2)

13. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Council by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for the following:

13. Related Party Transactions (continued)

During the year, the Council paid $4,185,000 (2006 - $4,277,000) to the Department of Property Management and Saskatchewan Opportunities Corporation (SOCO) for accommodation charges on buildings.

At year-end, the Council has lease commitments with SOCO requiring minimum lease payments of:

2008	$ 2,911,000
2009	2,911,000
2010	2,911,000
2011	242,000
2012	nil

In 2007, the Council purchased supplies and services for $2,105,000 (2006 - $2,158,000) from related parties.

During the year, the Council recognized fee-for-service contract revenue of $2,831,000 (2006 - $3,193,000) with related parties.

As at March 31 the Council had $3,106,000 (2006 - $1,089,000) in related party accounts receivable which includes unearned revenue of $2,318,000 (2006 - nil).

The Council has $3,368,000 (2006 - $4,746,000) of deferred revenue from related parties as at March 31. Of the $3,368,000, $344,000 (2006 - $687,000) is related to the Fermentation Facility's funding from Agri - Food Innovation Fund (AFIF), $112,000 (2006 - $169,000) is related to the GenServe funding from AFIF, $125,000 (2006 - $ 500,000) is related to the Fermentation Upgrade funding and $2,787,000 (2006 - $3,390,000) is related to the Capital Enhancements funding.

During the year, the Council provided general administrative services to the Saskatchewan Research Council Employees' Pension Plan without charge.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

14. Comparison of Planned and Actual Results

A comparison of actual to budgeted results for each line item on the consolidated statement of operations follows:

	Actual 2007 (000's)	Budget 2007 (000's)	Actual 2006 (000's)	Budget 2006 (000's)
Revenue:				
Contracts	$ 26,199	$ 27,362	$ 22,735	$ 23,026
Grant - General Revenue Fund	8,659	8,646	8,579	8,190
Grants - Fermentation Facility	654	399	399	399
Grants - Capital Enhancements	603	–	206	–
Interest revenue	236	76	164	40
Change in restricted investment	42	–	57	–
	36,393	36,483	32,140	31,655
Expenses:				
Salaries and benefits	15,854	15,976	14,147	13,900
Supplies and services	9,641	11,567	8,155	10,722
Accommodation charges	4,715	5,289	4,749	4,738
Amortization of property, plant and equipment	2,619	2,507	2,203	1,840
Amortization of Fermentation Facility assets	654	399	399	399
Amortization of Capital Enhancements funded assets	603	–	206	–
	34,086	35,738	29,859	31,599
Net income from operations	2,307	745	2,281	56
Defined benefit pension plan (expense) revenue	(52)	–	66	–
Net income before extraordinary item	2,255	745	2,347	56
Extraordinary item	–	–	750	–
Net income	$ 2,255	$ 745	$ 3,097	$ 56

15. Commitment

SRC established a legal trust account in which to invest and hold funds for the eventual decommissioning of the SLOWPOKE reactor. This trust agreement is a condition of the operating license issued to the Council by CNSC. An initial investment of $500,000 was made in 2004. Investments of $260,000 were made in fiscal years 2006 and 2007. Annual investments of $260,000 are required for each of the next three years.

16. Financial Instruments

The Council's significant financial instruments consist of accounts receivable, accounts payable, other payables, trust investment and the restricted investment.

Credit Risk:

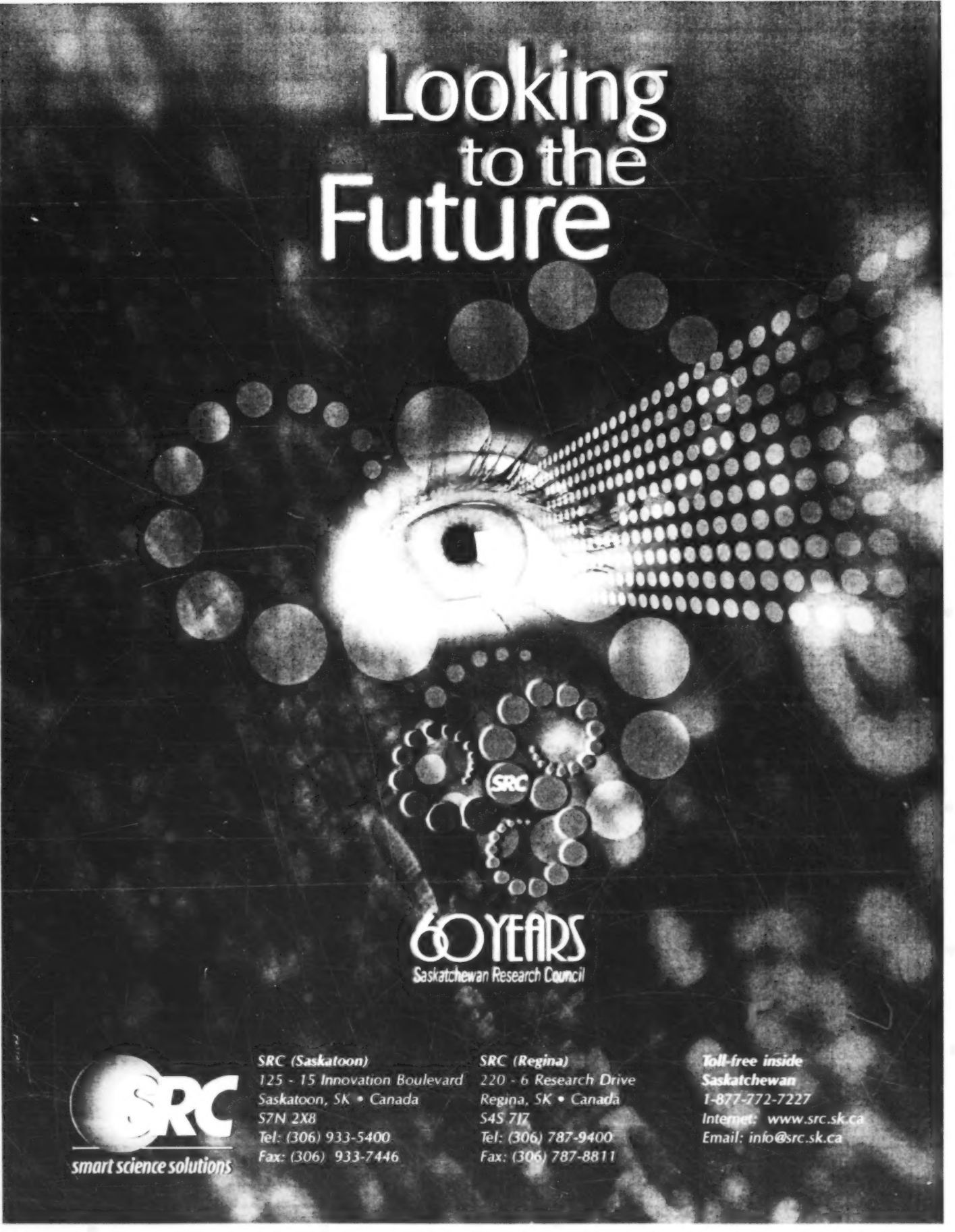
The Council is exposed to credit risk from the potential default of customers. However, the majority of the Council's receivables are from related parties, other government agencies and reputable, longstanding corporate clients. Therefore the credit risk is minimal.

Fair Values:

The fair values of the accounts receivable, accounts payable and other payables approximate their carrying value due to the short-term nature of these instruments. The fair value of the restricted investment is considered to be market value, the calculation of which is detailed in Note 2.

17. Comparative Figures

Certain 2006 financial statement balances have been reclassified to conform with the presentation of the 2007 figures.



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